Anglo-American Development, the Euromarkets and the Deeper Origins of Neoliberal Deregulation

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Abstract

This article challenges existing accounts of the development of the Euromarkets by arguing that their emergence constituted the foundational moment in the advent of post-war Anglo-American developmental field. The account contends the notion of a post-war order shaped predominantly by the outward expansion of American financial power, by de-privileging the exclusivity of American power and arguing that co-constitutive Anglo-American developmental processes were the generative force that produced the Euromarkets . Drawing upon new archival material , the article suggests that an Anglo-American developmental sphere, in which Britain continued to play a crucial but subordinate role, was key to the unfolding of post-war financial globalisation. The Anglo-American developmental processes occasioned by the Euromarkets gave rise to a 'transatlantic regulatory feedback loop' that stimulated deregulation on both sides of the Atlantic and placed Anglo-American capitalist interdependence at the centre of the politics of globalisation . The deeper origins of financial deregulation lie in the transformation of Anglo-American finance during the 1960s.

Introduction

The emergence of the Euromarkets has commonly been understood either as a consequence of the changing relationship between states and markets, or as a product of the outward expansion of American finance. This article challenges prevailing accounts. Drawing upon archival material from the Bank of England and the Treasury, the article proposes that the Euromarkets were central to an emerging Anglo-American developmental sphere.[1] Anglo-American developmental processes occasioned by the Euromarkets played a defining role in the politics of globalisation, spawning novel institutional forms of hybrid Anglo-American financial development in the City of London. These Anglo-American dynamics transformed the regulatory

[1] The term 'Euromarkets' applies to transactions of offshore currency in two distinct but related markets: the 'Eurocurrency/Eurodollar' and 'Eurobond' markets.

orders on both sides of the Atlantic in a highly interactive manner, eroding the regulatory architecture of the post-war Keynesian state in Britain and destabilising American New Deal regulations. Anglo-American dynamics also reordered the broader regulatory context of international banking through the development of offshore and the emergence of the Basle regime. The Euromarkets set in motion a 'transatlantic regulatory feedback loop' that destabilised transatlantic regulatory regimes. Many of the deregulatory moves in Britain and America during the ideological transformation of the 'neoliberal era' were incubated during the 1960s.

The article begins by reviewing existing literature on the Euromarkets, suggesting that scholars have overlooked the constitutive role of Anglo-American development. An alternative conceptual framework, focusingupon the institutional connectivity underpinning Anglo-American development, is then outlined. In the second half, the article turnstowards the institutional outcomes of Anglo-American development by examining evidence on Anglo-American interest rate interdependence alongside previously unpublished archival evidence from the Bank of England and the Treasury, some of which has only recently become available under the thirty-year rule. This evidence reveals the impact of arriving American banks upon the institutional development of the Bank of England and the integration of Anglo-American money markets. A number of novel institutional developments, emerging from the co-constitutive interaction of Anglo-American finance, and their significance for the broader transformation of the international financial system, are discussed. Finally, the article explores the impact of the transatlantic regulatory feedback loop and its significance for understanding the deeper Anglo-American origins of financial deregulation.

States, markets and the Euromarkets

The debate over the Euromarkets has focused upon three main themes: firstly, attempting to identify their specific historical origins,[2] secondly, understanding their relevance to Britain's national development[3] and, finally, their relevance to the international transformations associated with the collapse of the Bretton Woods system.[4] Within the IPE literature, a subset of scholars has argued that the emergence of the Euromarkets was functional to the deepening of American structural and financial power associated with American hegemony or imperialism.[5]

The IPE literature on the Euromarkets has been criticised for reducing the debate to a simple dichotomy between state and market. Responsibility for the development of the Euromarkets is then accorded *either* to state agencies *or* market operators. In reality the responsibility for the emergence of the Euromarkets is hard to pin down in bifurcated terms. In Britain the key institution, the Bank of England, acted as an interface between the state and the market and played the roles of 'poacher and gamekeeper' simultaneously.[6] Blurring the boundary between state and market renders conventional IPE accounts of the Euromarkets highly problematic.

Gary Burn's excellent corrective to the 'states versus markets' dichotomy has captured many of the institutional and historical specificities of the Euromarkets'

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[2] See: Geoffrey Bell, *The Euro-dollar Market and the International Financial System*, (London: Macmillan, 1973); Catherine Schenk, 'The Origins of the Eurodollar Market in London: 1955-63', *Explorations in Economic History*, 35 (1998), pp. 221-238.
[3] See: Gary Burn, *The Re-Emergence of Global Finance*, (Basingstoke: Macmillan, 1998); Geoffrey Ingham, *Capitalism Divided? The City and Industry in British Social Development*, (London: Macmillan, 1984).
[4] See: Fred Block, *The Origins of International Economic Disorder: A Study of United States International Monetary Policy from World War II to the Present*, (Berkeley: University of California Press, 1977); Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System*, (Princeton: Princeton University Press, 2008); Eric Helleiner, *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s*, (London: Cornell University Press, 1994)
[5] See: Peter Gowan, *The Global Gamble: Washington's Faustian Bid for World Dominance*, (London: Verso, 1990); Martijn Konings, *The Development of American Finance*, (Cambridge: Cambridge University Press, 2011); Leo Panitch and Sam Gindin 'Finance and American Empire', in Panitch and Konings (eds), *American Empire and the Political Economy of Global Finance*, (London: Macmillan, 2009), pp. 17-48; Susan Strange, 'The Persistent Myth of Lost Hegemony', *International Organization*, 41 (1987), pp. 551-574.
[6] Burn, 'The State', pp. 227 and 241.

origins. Burn's account, however, neglects the substantive impact of Anglo-American development in recalibrating global capitalism. It is with the interlinking Anglo-American developmental processes and institutional transformations arising from the Euromarkets, rather than their historical genesis, that this article is primarily concerned. Burn's assertion that the importance of the Eurodollar market lies ultimately in, 'the resurrection of an institutional state structure reminiscent of that which defined the pre-1931 City-Bank-Treasury nexus', overlooks the way in which the British state wasqualitatively transformed through its incorporation within an Anglo-American developmental sphere.[7] By arguing that the City effectively regained its autonomy through the Eurodollar market, Burn neglects the extent to which the arrival of the American dollar and American banks in London drew American state power into the affairs of the City and redefined British sovereignty.[8]

Power did remain concentrated within the City-Bank-Treasury nexus, yet it was articulated through and embedded within a new, fundamentally distinctive, order of Anglo-American finance. The City-Bank-Treasury nexus remained dominant within the British state because it was able to integrate itself within an internationalising Federal Reserve-Wall Street-Treasury nexus at the heart of American capitalism. This new order of Anglo-American finance, embedded within an Atlanticised British capitalism, proved central to the incubation of financial globalisation and liberalisation that gravely undermined, in synchronicity, the Bretton Woods monetary order and national monetary orders in Britain and the U.S.

A further grouping of scholars have pointed towards the special role that the U.S. has played in the constitution of global capitalism.[9] Panitch and Gindin view the collapse of Bretton Woods and the emergence of financial globalisation not as a consequence of globalising markets escaping the control of national states, but

[7] Burn, 'The State', p. 227; Burn, 'Global Finance', p.184.
[8] Burn, 'Global Finance', p. 135.
[9] Gowan, 'Global Gamble'; Panitch and Gindin, 'Finance and Empire'; Konings, 'American Finance'.

rather as a result of the international expansion of American finance.[10] Similarly, Konings critiques adherents of the 'states versus markets' approach for missing the extent to which the globalisation of finance from the 1960s was an outgrowth of American finance.[11]

These accounts provide an indispensable tonic to the literature that, misleadingly, viewed globalisation in terms of the 'retreat of the state'. Theorists of American power have, however, overlooked the emergent Anglo-American field of developmental interactivity that was fundamental to financial globalisation. We need to look beyond the expansive dynamics of American finance and towards the co-constitutive developmental processes that occurred through the interaction of bankers and monetary officials in the City and New York. This requires that we de-privilege the exclusive role of an outward expansion of American finance or unilateral American 'structural power'.

Konings' account makes important correctives to the structural power approach by challenging the ontologisation of the states and markets separation and elucidating the historical co-articulation of state power and structural power within US capitalism. Despite this modification, however, his explanation of post-war financial globalisation is overreliant upon a notion of the externalisation of internal American developmental dynamics and America's role in, 'shaping the preferences and influencing the structural conditions under which other actors make decisions'.[12] Britain's causal force in authoring financial globalisation is rendered invisible. Accordingly, the City becomes an analytical vacuum into which American banks simply move in the face of limits upon their internal development. The City is reduced to a release valve for the contradictions of American finance.[13] This focus elides the manner in which American structural power was constituted through transatlantic interactivity. As formulated by Strange, structural power never came

[10] Leo Panitch and Sam Gindin, *The Making of Global Capitalism: The Political Economy of American Empire*, (London: Verso, 2012), p. 119.
[11] Konings, 'American Finance', p. 88.
[12] Martijn Konings, 'The Construction of US financial power', *Review of International Studies*, 35(1) (2009), pp. 69-94.
[13] See: Konings, 'Construction of US power', pp. 86-87; 'American Finance', pp.93-98.

to terms with the complex processes of uneven and combined international development that *generated*, often quite accidentally, the institutional capacities that underpinned America's post-war power.[14] Without highly contingent and specific institutional developments within Britain, that reflected the agency of specific social forces and state managers as they wrestled with the distinctive challenges of managing Britain's transition to post-imperial power, there would have been no spatial fix for American finance. British state institutions and merchant bankers pulled in American finance by adapting their institutional orientations and capacities and Atlanticising British capitalism.

This required a redefinition of sovereignty, both in terms of the spatial extension of regulatory responsibility for the Bank of England and the embedding of the fiscal basis of the Treasury within the Euromarkets. The under-theorised status of the constitution of political-economic space in American power approaches leads to an under appreciation of the centrality of the City's entrepôt role in furthering globalisation.[15] Britain's state had been internationalised *par excellence* during the 19th century and it was this legacy that was revitalised through the emergence of 'offshore' as a novel form of political-economic space. The intersection of capitalist and state agency, through the lobbying power of key merchant bankers, was central. In broader terms, Britain's longstanding entrepôt role was redefined through 'offshore' to cope with the demise of sterling and harness the dollar. By missing these dynamics Konings, along with other scholars, overstates the domestic origins of the US turn to monetarism and neoliberalism from the late 1970s and obscures the developmental impact of the transatlantic regulatory feedback loop in driving financial deregulation.[16] It is not enough to read off financial globalisation from the

[14] Strange's formulation of structural power is circular: America has structural power because it can shape the choices and preferences of other actors, but it can do so only because it already has acquired structural power. There is no notion of how structural power capacities develop diachronically within this ahistorical tautology.
[15] For a discussion of the problem of political space in Panitch and Gindin's work see: J.Z. Garrod 'A Critque of Panitch and Gindin's Theory of American Empire', *Science & Society*, 79:1 (2015), pp. 38-62.
[16] See: Konings, 'American Finance'; Greta Krippner, '*Capitalizing on Crisis: The Political Origins of the Rise of Finance*, (Cambridge: Harvard University Press, 2011).

'development of American finance', we need to problematise 'Anglo-American development' as the creation of a distinctive form of transatlantic political-economic space, more broadly. American banks may have filled that space, but it was the British state and British bankers that constructed the 'offshore' environment that enabled financial globalisation through the City and integrated Anglo-American capitalism.This was not, therefore, simply a case of the internationalisation of the American state, but rather a synthetic form of Anglo-American development that ensured that the American Federal Reserve-Treasury-Wall Street nexus was articulated in and through the City-Bank-Treasury nexus in Britain. In the process, both national capitalisms were transformed, with a reduction in monetary policy autonomy and a deeper integration of their respective financial systems. The post-war period was not only about the US state structuring the options of other national capitalisms, its own policy options and business strategies were structured by developmental dynamics driven by social forces in Britain. Understanding this is crucial to understanding the subsequent role of Anglo-American leadership in driving forward the politics of financial globalisation. Recognising the significance of Anglo-American development serves as an important corrective to the overstated role of neoliberal ideology in shaping financial globalisation from the 1980s.[17] Many of the deregulatory dynamics consummated during the neoliberal era arose as a response to processes that emerged during the crisis years of Bretton Woods.

Conceptualising Anglo-American Development

[17] See in this regard: David Harvey, *A Brief History of Neoliberalism*, (Oxford: Oxford University Press, 2005); Joel Krieger, *Reagan, Thatcher and the Politics of Decline*, (Oxford: Oxford University Press, 1986).

IPE scholars have emphasised cycles of UK/U.S. hegemony, but rarely considered the interactivity of Anglo-American development.[18] Examining Britain and the U.S. within a unified analytical lens allows us to uncover the constitutive dynamics of 'Anglo-American development' that generated American structural power in the post-war period by securing dollar hegemony. The emergence of the Euromarkets represents a key instance of Anglo-American development. It sowed the seeds for financial globalisation and gravely undermined the Bretton Woods system of fixed exchange rates. The flows of hot money unleashed by the Eurodollar market destabilised sterling and the dollar during the 1960s and 1970s.[19] By increasing the exposure of these two key currencies to speculative attacks, the Eurodollar market played a central role in the collapse of fixed exchange rates. But, paradoxically, the Euromarkets entrenched the hegemony of the dollar, ensuring its international supremacy even after its fixed convertibility to gold was terminated.

The lineages of Anglo-American development can be traced back much further, to the interwar years. The First World War debilitated Britain and strengthened its U.S. creditor. With sterling and the British economy weakened, the City was forced to draw upon American financial support in order to re-launch the gold standard and restore sterling convertibility.[20] As sterling weakened and the dollar strengthened, the management of the two currencies became increasingly intertwined. Britain's singular role at the centre of the global financial system was de-privileged and the U.S. became integral.[21]

The failure of Anglo-American management of the inter-war international monetary system had a formative impact upon the priorities instituted at Bretton

[18] See: Robert Cox, *Production, Power and World Order: Social Forces in the Making of History*, (New York: Columbia University Press, 1987); Robert Gilpin, *U.S. Power and the Mutlinational Corporation: The Political Economy of Foreign Direct Investment*, (New York: Basic Books, 1975); Robert Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy*, (Princeton: Princeton University Press, 1984).
[19] Block, 'Origins of Disorder', p. 197; Susan Strange, 'The Dollar Crisis 1971', *International Affairs*, 48 (1971), pp. 191-216.
[20] Kathleen Burk,'The House of Morgan in Financial Diplomacy, 1920-30', in McKercher (ed) *Anglo-American Relations in the 1920s: The Struggle for Supremacy,* (London: Macmillan, 1991), pp. 125-158; Ron Chernow, *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance*, (London: Simon & Schuster, 1990), p. 276.
[21] Block, 'Origins of Disorder', p. 14; Konings, 'American Finance', p. 71.

Woods. Anglo-American collaboration formed the foundation for the post-war international economic order constructed in New Hampshire.[22] The new regime instituted at Bretton Woods was a direct response to the challenges faced during the 1920s and 1930s.[23] And just as Anglo-American dynamics had been central to the interwar period, they were now institutionalised through the Bretton Woods agreement.

A series of key institutional connections between state managers and bankers were at the heart of deepening Anglo-American interdependence. The Treasuries and central banks of Britain and the U.S. were brought into ever-closer contact by their attempts to manage the international monetary system. The significance of the City-Bank-Treasury nexus within British development has been identified.[24] While for the U.S., IPE scholars have recognised the significance of the Federal Reserve-Treasury-Wall Street nexus.[25] Scholars have not, however, identified the extent to which the Federal Reserve-Treasury-Wall Street complex at the heart of American capitalism, has been articulated in and through the corresponding City-Bank-Treasury nexus within Britain. This was the broader transatlantic context within which the emergence of the Euromarkets occurred. But the key dynamics also reflected the specificities of national capitalist development within bothcountries. It is to the particular trajectory of Anglo-American development that the analysis now turns.

Regulatory embrace and regulatory escape

[22] Peter Burnham, *The Political Economy of Post-war Reconstruction*, (Basingstoke: Macmillan, 1990); John Ruggie, 'International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order', *International Organization*, 36 (1982), pp. 379-415.
[23] Eichengreen, 'Globalizing Capital', p. 91; Louis Pauly, *Who Elected the Bankers? Surveillance and Control in the World Economy* (London: Cornell University Press, 1997), p. 45.
[24] Ingham, 'Capitalism Divided?'.
[25] Gowan, 'Global Gamble'; Panitch and Gindin, 'Making Global Capitalism'.

Britain's 1951 Conservative government was keen to restore the City's international role. But they faced a central dilemma, the international predominance of sterling, crucial to the City's former pre-eminence as an entrepôt centre, was no longer. The Conservative ambition to restore the City appeared increasingly incompatible with the need to maintain sterling's fixed exchange rate. For British merchant banks and the City to regain their international predominance and fulfil the Conservative's political aspirations to restore the old order of the British state an alternative means would have to be found. The solution was the Eurodollar.

British banks were only able to maintain their international standing by switching into the dollar. As British power waned,[26] Not surprisingly, then, it was the merchant banks that led the Euromarkets charge, setting the stage for the City's rebirth within a new Anglo-American financial order

The 'offshore' status of the Eurodollar market was unique. An informal approach to regulation in the City allowed the Euromarkets to flourish and effectively split the British banking system in two.[27] In order to do this, the City developed a new accountancy category: where at least one party to the transaction was British, the transactions were defined as 'onshore', but where both parties were non-British the transactions were marked in a second 'offshore' set of books. Offshore was an accounting device that embedded a sovereign bifurcation within the City's regulatory order: onshore activities and entries were subject to national financial regulations, while offshore transactions, conversely, fell beyond the national regulatory remit and within a laissez-faire order of self-regulation spatially within, but juridically beyond, the post-war Keynesian state infrastructure of financial control.[28] By developing an 'offshore' regulatory orientation and accountancy technique, the City was able to perpetuate its entrepôt role through the

[26] Geoffrey Jones, *British Multinational Banking, 1830-1990*, (Oxford: Clarendon Press, 1993), pp. 248-287.

[27] Burn, 'City and State', p.226. Schenk describes this regulatory context as one that, 'encouraged innovation as a means of evading controls while tolerating such innovations ex post': Schenk, 'Origins of Eurodollar', p. 233.

[28] Ronen Palan, *The Offshore World: Sovereign Markets, Virtual Places, and Nomad Millionaires*, (Ithaca: Cornell University Press, 2006), pp. 27-32.

dollar. It was the innovation of 'offshore' finance then, as a peculiar and intentional bifurcation of sovereignty, which enabled the City's entrepôt role to continue. American finance could never have globalised as it did without this British institutional innovation.

At work here was a process of 'regulatory embrace' by which the City's merchant bankers and the Bank of England welcomed the emergence of offshore dollar business within the City, establishinga symbiotic relationship with New York and the American monetary system.. Here the roles of George Bolton and Siegmund Warburg were central. Bolton, a former merchant banker employed by the Bank of England, was crucial to establishing the Bank's early acceptance of the Euromarkets. Siegmund Warburg, one of Britain's premier merchant bankers, was instrumental. Warburg had been deeply critical of the limited integration brought about through Bretton Woods, calling for greater capital mobility as well as closer financial ties between Britain and the US as early as 1950.[29] He would be influential in pulling the Treasury deeper into the Euromarkets during the 1960s.

Bolton and Warburg visited America in 1962 to gauge the American mood on Eurobonds. Bolton subsequently encouraged the Bank to enable Eurobond issues and by early 1963 the approval of the authorities was secured. The first ever Eurobond issue was signed in July of 1963, the deal was guided through by Bolton while Warburg's banking house provided the signature.[30]

For both Warburg and Bolton, the revival of London's role as an international capital market dealing in foreign currency was a mechanism for promoting British entry into the EEC by enhancing the City's continental appeal. Unbound from sterling, the City would be beneficial to the EEC and Europeans would not have to prop up an ailing currency. Warburg's correspondences with the Bank implicitly threatened that failure to liberalise London's capital markets might lead to an exodus of merchant bankers towards alternative European financial centres in an

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[29] Niall Ferguson, *High Financier: The Lives and Times of Siegmund Warburg*, (London: Penguin, 2010) pp. 159-160.
[30] Ian Kerr, *A History of the Eurobond Market: The First 21 Years*, (London: Euromoney, 1984). P14.

exercise of 'capital flight' discipline over the state that would become all too common in the era of globalisation.[31]

The development of the Euromarkets was driven by the agency of merchant bankers in conjunction with state institutions, demonstrating the tight linkages between private bank power and the development of the state's institutional capacities. It was the agency of key forces within Britain that facilitated the internationalisation of American finance and they did so in order to pursue their own distinctive ends of retaining domestic hegemony and deepening European financial integration. By doing so they in fact structured American policy options, not vice versa, reversing the lines of causality established by American-centric perspectives on structural power.

The regulatory embrace of the City's merchant bankers and the Bank was matched by a correspondent 'regulatory escape' of American banks from the restrictive New Deal regulatory regime in the US. Interactivity between the dollar supply, monetary policy and the status of the City as an entrêpot centre anchored the emergence of the Euromarkets within Anglo-American development.

After the Great Depression, American monetary authorities introduced 'Regulation Q' and the Glass-Steagall Act.[32] Regulation Q capped the interest rate that American banks could offer for depositors, while Glass-Steagall maintained a strict division between commercial and investment banking. Despite this restrictive context, American finance experienced prolonged growth after the war.[33]

By the later 1950s, however, American banks were frustrated by New Deal regulations. [34]These restrictions prompted a 'regulatory escape' by large American banks seeking to sidestep New Deal regulations and take advantage of London's burgeoning offshore business. In the years that followed American banks overcame entered the offshore regulatory space of the City, transforming Anglo-American capitalism in the process.

[31] Ferguson, *High Financier*, pp. 209-218.
[32] Bell, 'The Euro-dollar Market', p. 9.
[33] Konings, 'American Finance', p. 100.
[34] Ibid, p. 107.

AClose cooperation between the Fed and the Bank emerged during the 1960s, as it became increasingly clear that collaboration was required to reinforce the stuttering Bretton Woods system. These measures gave further impetus to the Euromarkets.

Successive U.S. administrations attempted stopgap measures to assuage the balance of payments and stabilise the dollar.[35] The Americans were also increasingly drawn into the management of Britain's crisis-stricken monetary policy as Britain's balance of payments problems deepened. From 1964, supporting the existing sterling-dollar rate became a fundamental component of U.S. international monetary policy.[36] Added to this was a simmering geopolitical consideration: the Americans' willingness to support sterling was linked to Britain's presence in South East Asia. The State Department made clear that support for sterling was contingent upon Britain acting as a bulwark against communism in the region. Furthermore, the U.S. relied upon the Euromarkets to meet the capital needs of American MNCs abroad within a context of domestic restrictions on capital outflows and deficits fuelled by Vietnam.[37]Anglo-American monetary cooperation was therefore tightly linked to geopolitical considerations.

Anglo-American financial synthesis in the City

American banks arrived in Londonen masse during the 1960s. By 1975, 58 U.S. bank branches had been established in the City.[38] This section draws upon archival material from the Bank of England to examine the consequences of American entry

[35] Eichengreen, 'Globalizing Capital', p. 126.
[36]Ibid, pp. 123-125.
[37] Catherine Schenk, *The Decline of Sterling: Managing the Retreat of an International Currency, 1945-1992*, (Cambridge: Cambridge University Press, 2010). pp. 167 & 10.
[38] Richard Sylla, 'U.S. Banks and Europe: Strategy and Attitudes', in Battilossi and Cassis (eds) *European Banks and the American Challenge: Competition and Cooperation in International Banking Under Bretton Woods*, (Oxford: Oxford University Press, 2002), pp. 53-74.

into the City. This led to a synthesis of Anglo-American banking practices, increased Anglo-American interest rate interdependence and constraints upon the autonomy of policy makers on both sides of the Atlantic. It also transformed the Bank's institutional orientation towards a transatlantic outlook.

For the Bank , the arrival of the Americans raised crucial questions about regulation. While for British bankers, their arrival presented a potential competitive challenge. But for both the Bank and the bankers, their arrival was also a major opportunity. By invigorating and expanding the scope and depth of the Euromarkets, the American invasion offered British bankers the chance to take a bigger slice of a rapidly growing pie, even if their relative share declined.

The American influx boosted the standing of the Euromarkets and by association, the Bank. This was reflected in the banks status as the epistemological authority on the Euromarkets. The arrival of the Americans, enabled the Bank to reassert its centrality and significance within the British state and international financial community. It was through its interconnection with offshore American finance and deepening ties to the Federal Reserve-Treasury-Wall Street nexus that the Bank recovered its pre-war international prestige within an international order dominated by American power. But the arrival of the Americans also raised troubling questions about the status of British merchant banks and increased Britain's sensitivity to American economic policy.

The 'spatial-fix' of escape into the City necessarily brought about complex questions regarding sovereign authority.. American banks now depended upon a foreign central bank, but the Bank would be expected to hold closer ties to the old order of the City's banking elite than to the American interlopers.

For the US Treasury and the Fed, the American takeover of the Euromarkets was similarly Janus-faced. By escaping the New Deal regulatory parameters and dependence upon the domestic dollar supply, the American banks gravely undermined the capacity of American fiscal and monetary policy to control banking. This would become all too clear from the mid-1960s. But they had also, quite unintentionally, alleviated some of the pressure on the U.S. balance of payments, by tapping in to offshore dollar flows, and intensifying the global standing of the dollar as a vehicle currency.

The scale and pace of the American capture of the Eurodollar market was breath-taking. Figure 1.1 below depicts this. Current account deposits of overseas residents represent Eurodollar market deposit-taking and the increase is accounted for overwhelmingly by increased dollar deposits.

Figure 1.1 about here

We can see in figure 1.1 that British Overseas and Commonwealth Banks experienced a major loss of relative market share, with their share of Eurodollar deposits dropping from c.40% in 1962, to c.25% in 1970. Accepting houses also experienced a severe contraction of their market share, from 20% down to 8% between 1962-1970. For American banks the story was very different. Their share of Eurodollar deposits rose precipitously, from just over 20% in 1962, to around 55% in 1970.

By disaggregating deposits into sterling and non-sterling we get a clearer picture of the vast take-off in Eurodollar deposits from figure 1.2.

Figure 1.2 about here

For American banks, the growth in deposits of overseas residents was overwhelmingly accounted for by a sharp increase in non-sterling (i.e. dollar) deposits. The low level of sterling deposits remained remarkably stable over the period.

Contrastingly, British Overseas and Commonwealth banks (figure 1.3) experienced much more gradual increases in the volume of non-sterling deposits from overseas residents. Whereas American banks experienced a sevenfold increase in the volume of overseas non-sterling deposits between 1965-1970, British Overseas and Commonwealth banks experienced a threefold increase. British banks' relative gains were limited, but they now participated in a level of market expansion unimaginable without the influx of American banks and the corporate client base that they brought with them.

Figure 1.3 about here

How did the Bank respond to the Americanisation of the Eurodollar market? The following archival evidence from the Bank captures the reaction to the arrival of the Americans and provides crucial insights into the mechanisms underpinning the intensification of Anglo-American development. The Bank really took notice of the Americans from 1963, as documented in the regular meeting of Euro-currency experts at the BIS. Reporting on the 1963 meeting, Bank officials acknowledged that London branches of American banks were more active than before in the Eurodollar market, with U.S. businesses borrowing there rather than New York.[39]

Correspondence between the Treasury and the Bank provided the primary channel of Euromarkets policy formulation and prompted further development of communication channels between them. As well as pulling in American state and financial power, then, the Euromarkets helped to solidify the institutional interdependencies between the Bank, the Treasury and the City. Bank officials outlined the parameters of their responsibility for Eurodollar activity in these exchanges.[40] In correspondence with the Treasury, Bank officials made clear that what applied for British banks, regarding the Bank stepping in as a lender of last resort, 'cannot be held to apply in the same measure at all to the London branches

[39] Bank of England Archives 6A123/1 'Economic Intelligence Department Files: Euro Currencies- Including Euro Dollars and Euro Bonds 1/1/64-31/7/65', Report on Meeting of Experts on the Euro-currency Markets at the BIS, November 9th -11th 1963.
[40] BoE Archives 6A123/5 'Economic Intelligence Department Files: Euro Currencies- Including Euro Dollars and Euro Bonds 1/1/68-31/5/69', Memo from Treasury to the Bank of England requesting Prime Ministerial brief on the Eurodollar market, October 22nd 1968.

or subsidiaries of foreign banks'.[41] London branches of foreign banks were not viewed as the responsibility of British authorities but rather those of their head offices. Beyond the head offices, national central banks from the originating country would take ultimate responsibility. This discussion occurred within a context whereby London branches of American banks now accounted for 30% of deposits in the Eurodollar market.

Crucially then, the City's hosting of foreign banks did not entail a corresponding globalisation of the Bank's lender of last resort function. The American influx and the hybrid interaction of Anglo-American finance that this was occasioning in the City, were forcing the Bank to evolve its regulatory responsibilities in a manner that would have a hugely significant bearing on the future of international banking.

As monetary conditions tightened in the U.S., the significance of the Eurodollar market increased dramatically. Between 1965 and 1966 a credit squeeze in the U.S. and the introduction of the 'Voluntary Foreign Credit Restraint' programme led New York banks to turn to their London branches for funds. The Bank noted that this dynamic was practically 'inevitable' given that the traditional sources of liquidity within the U.S. had dried up. In fact, monetary conditions in the U.S. were so difficult that when a Bank official met with a senior member of the Chase Manhattan bank in early 1966, the Chase employee suggested that the Eurodollar market had been so important for reserve positions that, 'without it, we'd have been dead' .[42] The Euromarkets enabled American banks to circumvent domestic restraints on credit in a way that severely undermined the policy autonomy of US officials and meant that the Americans were increasingly forced to look to London and the British authorities in order to manage their domestic banking system. Anglo-American development was eroding monetary autonomy on

[41] BoE, 6A123/1: Letter regarding document to be prepared by the Bank of England in response to a Treasury request for information of the standing of the Eurodollar market, March 6th 1964.

[42]BoEArchives 6A123/3 'Economic Intelligence Department Files: Euro Currencies- Including Euro Dollars and Euro Bonds 1/8/65-31/10/66', Memo from Bank of England Overseas Office charting U.S. banks drawing dollars through London branches, August 22nd 1966.

both sides of the Atlantic. Preoccupations with American structural power fail to capture this pronounced increase of American dependency upon British state agency.

Johnson's restrictive measures and the Fed's credit crunch in 1966 werea watershed for American banks and the Euromarkets.[43] No longer taking only a passing interest in the market, American banks identified Eurodollar expansion as essential to their business strategy.[44] The Euromarkets transformed the business practices of American banks and integrated transatlantic money markets.

The Bank's position within the City enabled it to gauge the intensity with which the Eurodollar market was being shaped by changes in U.S. monetary policy. As more American banks decamped to London, their role in funnelling funds to their U.S. head offices led to an *increasing interactivity of interest rates* on each side of the Atlantic, a further symptom of intensifying Anglo-American interdependence. As we can see in figure 2.1 below, a *triadic interaction of interest rates* evolved during the 1960s: that between Bank Rate, the Eurodollar Rate and the Federal Funds Rate.

Figure 2.1 about here

The principal relationship here was between the Eurodollar Rate and the Federal Funds Rate, with the absence of interest rate ceilings enabling the Eurodollar Rate to be set consistently above that of the U.S. money market rate with the effect of drawing money out of the U.S. capital markets and into London. Figure 2.1 shows that UK Bank Rate was consistently the highest rate of the three. This was needed to maintain the attractiveness of sterling holdings in the light of the emergence of the Euromarkets but also a measure of sterling's general weakness. But given the increasingly limited role for sterling as a trade and investment currency, and the

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[43] Daniel Kane, *The Eurodollar Market and the Years of Crisis*, (New York: St Martin's Press, 1983), p. 13.

[44] Richard Sylla describes this transformation aptly, suggesting that while American banks gave little consideration to operations in Europe before 1963 they, 'thought about little else in the decade thereafter': Sylla, 'U.S. Banks and Europe', p. 62.

dominant role of the dollar, the impact of the sterling rate upon the price of dollar borrowing was not without limits. The differential between the Eurodollar Rate and the Federal Funds Rate was more important with respect to the price of dollar borrowing.

Figure 2.2 about here

Authorities on both sides of the Atlantic were aware of this dynamic. During a U.S. Treasury meeting in April 1963, Robert Roosa expressed discontent with the British monetary authorities, suggesting that they had pushed up Bank Rate in order to keep ahead of the Eurodollar Rate. It was understood that the British action might also push up the Eurodollar Rate, aggravating U.S. balance of payments difficulties through the resultant capital outflow.[45] This dynamic is clearly evidenced in figure 2.1, which shows that Bank Rate was the highest rate, with the Eurodollar Rate below it and the U.S. Federal Funds Rate consistently the lowest of the three. Apart from a three-year period, between 1968 and 1971, the British Bank Rate was highest.

During the mid-1960s this relationship intensified. As figure 2.2 shows, there was a strong correlation between the Eurodollar Rate and the U.S. Federal Funds Rate. Whilst during the early 1960s the Eurodollar Rate was kept marginally above the Federal Funds Rate in order to draw money away from the U.S. capital market, from the mid-1960s as the U.S. tightened its monetary policy, the Eurodollar Rate spiked in response to a massive surge in demand. This was a result of factors that the Bank had recognised: by drawing funds from their London branches the New

[45] Burn, 'Global Finance', p. 158.

York banks were pushing up the price of Eurodollar borrowing.[46] This dynamic is visible in figure 2.2, with the two Eurodollar Rate spikes that pushed it well over the Federal Funds Rate from 1965 to 1967 and then again from 1968 to 1971.

Anglo-American financial development in the City restricted the autonomy of US policy makers, necessitating greater cooperation and openness with British counterparts. Eurodollar movements exerted sustained pressure upon the international monetary system. Large-scale American borrowing introduced a, 'permanent element of demand' shaped by economic conditions within the U.S.[47] This integrated the US, Eurodollar and European markets much more tightly. Consequently, European capital markets became more exposed to fluctuations in US monetary policy, creating a form of hub and spokes relationship.[48] These developments contributed to the increasing international monetary disorder of the later 1960s and early 1970s.[49]

Eurodollar flows into US money markets were discussed at the BIS in 1966. American bank branches had begun granting loans to the head offices of US corporations, who lent the money on to their overseas subsidiaries. This method was devised explicitly to circumvent the Interest Equalization Tax.[50] When asked about the attitude of the US authorities towards this borrowing, given that it weakened the impact of US monetary restraint, Samuel Katz of the Fed replied that the borrowing was not a serious problem given its small size. Significantly, Katz added that these borrowings were in fact 'welcome' given that they had the effect of strengthening the dollar's position and easing the US balance of payments. But as

[46] B oE Archives 6A123/3 'Economic Intelligence Department Files: Euro Currencies-Including Euro Dollars and Euro Bonds 1/8/65-31/10/66', Memo from Bank of England Overseas Office charting U.S. banks drawing dollars through London branches, August 22nd 1966.

[47] Kane, 'Eurodollar Market', p. 13.

[48] Ibid.

[49] The 'Eurodollar slop', an expanding pool of ex-patriate dollars that tended to move predominantly back and forth across the Atlantic, was the underlying root of the dollar crisis of 1970/71 that preceded Nixon's delinking from gold and the de facto termination of Bretton Woods: Strange, 'Dollar Crisis', p. 198.

[50] BoE Archives 6A123/6 'Economic Intelligence Department Files: Euro Currencies-Including Euro Dollars and Euro Bonds 1/6/69-31/3/70', Report on the 'Meeting of Experts on the Euro-Currency Market', July 12th, 1966.

the Eurodollar market's integration with the US money market intensified during the latter 1960s, the American attitude hardened. This tougher stance would culminate with a failed attempt to win tighter regulation of the markets. In the following decades, Euromarkets dynamics hosted in London were a continual thorn in the side of US policy-makers.

American bank borrowing from London branches surged in1968, stimulated by restrictive measures implemented by Johnson. In response, the Fed's Andrew Brimmer suggested that while the Eurodollar market was based in London, 'its basic driving force during the last year has centred in about a dozen large banks in the United States'.[51] These banks turned to the Eurodollar market to compensate for the loss of domestic deposits. Brimmer acknowledged that bidding for Eurodollar funds by American banks had pushed up the Eurodollar Rate and made monetary management in the US more difficult. US policy makers were now a victim of the success of the dollar, finding their actions and autonomy severely constrained by the satellite role of the Euromarkets. By constructing the Euromarkets and drawing in the dollar, British merchant bankers and the Bank, in conjunction, set in motion dynamics that curtailed the scope of American policy-makers. The limits of US structural power were not therefore simply the result of developmental 'contradictions',[52] they were the product of the agency of British merchant bankers and the Bank of England as they used offshore to resuscitate the City's entrepôt role.

Banking on the Treasury

British merchant bankers used the momentum of the Euromarkets to transform the fiscal basis of the British state, steering British development towards their interests. Pressures to change the financing of the nationalised industries reached fever pitch after devaluation in 1967. Eurobonds were now touted as a potential source of funds. The Treasury and the Inland Revenue discussed the possibility of easing

[51] Bank of England Archives 6A123/6 'Economic Intelligence Department Files: Euro Currencies- Including Euro Dollars and Euro Bonds 1/6/69-31/3/70', Transcript of presentation given by Andrew Brimmer, 'The Eurodollar Market and the US Balance of Payments', November 17th 1969.

[52] Konings, 'Construction of US Power', p.80.

access to the Eurodollar market for British traders. The motivation here was the perceived benefit to the British balance of payments with reserves strengthened if traders borrowed outside the Sterling Area to finance domestic investment.[53] To encourage Eurodollar borrowing, a new Bill proposed to make more interest on foreign borrowing tax deductible.

The Treasury and the Bank overrode the Inland Revenue's concerns about the potential impact of a relaxation of borrowing controls upon offshore tax havens. In a meeting between Treasury and Bank officials the increased balance of payments benefits post-devaluation were stressed. With confidence in sterling low, it was felt that any measures that could help bolster Britain's reserve position were to be encouraged.[54] The move towards greater Euromarket borrowing would have an additional benefit: reducing Britain's exposure to destabilising short-term capital movements.

By expanding the financing options available to firms, the proposal would lead to, 'the average lengthening of our borrowing abroad', a step which was seen as, 'in line with the Government's policy of reducing the country's sensitivity to short-term flights of funds'. Increases in reserves derived from this practice would be a, 'very real gain', and, 'would be recognized as such in every financial centre in the world'.[55] The Bank firmly supported the proposal and the Treasury agreed that the Inland Revenue's tax objections were, 'insubstantial'.[56] By the end of May 1968, the Chancellor of the Exchequer had concluded that the balance of payments benefits outweighed the tax difficulties.[57] Quite perversely, then, the growing offshore market that had enabled vast movements of hot money previously unseen during

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[53] National Archives IR40/16006 'Discussions with Financial Secretary, Treasury and Revenue on whether companies should be encouraged to borrow on Eurodollar market 1966-1978', Memo from Treasury to Inland Revenue, 1968.
[54] NA IR40/16006, 'Meeting between Financial Secretary, treasury and Bank of England Officials, 17th May 1968.
[55] NA IR140/16006, 'Note by the Financial Secretary on Eurodollar Borrowing', May 1968.
[56] Ibid.
[57] NA IR140/16006, 'Memo from Inland Revenue to Treasury Officials', 29th May 1968.

the post-war period was now viewed as the most viable means to insulate Britain from speculative movements. Capital controls were ruled out and the solution appeared to be an even tighter integration with the vicissitudes of the Euromarkets.

The increased appeal of the Euromarkets owed to the active lobbying of Britain's merchant bankers from the mid-1960s. Treasury officials reported to the Inland Revenue that, 'merchant bankers at home and abroad have been urging for some time that if certain tax impediments were removed U.K. firms and public bodies would be able to raise large sums in medium and long term issues of Eurodollar bearer bonds'.[58] Foremost among these merchant banker advocates was Warburg. In 1965 Warburg had, alongside Hambros and Rothschilds, pressured the Bank to exempt foreign bonds issued in London from stamp duty. They also pressed the Treasury to remove income tax deductions from interest on bonds issued by companies based in the UK.[59] Harold Wilson relied heavily upon Warburg for financial advice during the 1960s, with his firm advising the government on currency questions and public sector finances.[60]

Long term borrowing requirements of the nationalised industries had, since 1956, been financed wholly through the Exchequer.[61] This meant that their borrowing requirements were aggregated with other government borrowing. During the 1960s the funds required for borrowing had grown rapidly. The problem became one of financing investment without weakening Britain's balance of payments. Merchant bankers advocated greater Euromarket borrowing for the government, local authorities and the nationalised industries. Warburg declared to the Exchequer that borrowing from the Euromarkets would be "good for the credit".[62]

[58] NA IR140/16006, 'Treasury letter to the Inland Revenue', October 4th 1967.
[59] Ferguson, 'Warburg', p. 225.
[60] Ibid, p. 285.
[61] NA IR40/16006, 'Memo from the Chancellor of the Exchequer to the Treasury', September 13th 1967.
[62] NA IR40/16006, 'Treasury paper on the possibility of borrowing abroad to finance the nationalised industries and local authorities', May 25th 1967.

The City's merchant bankers were pushing Britain deeper into the embrace of private capital markets. The lobbying efforts of Warburg and others bore fruit: in 1969 the Gas Council raised £31 million through deutschmark denominated Eurobond issues, and by October of 1971 British public sector agencies had raised £51 million through this channel.[63] The Euromarkets intensified banking power in Britain, not only by pulling American banks into Britain en masse, but also by energising merchant banker's efforts to render government fiscal policy compatible with their interests.

This was not simply a case of the outward expansion of American finance, then, or of the restoration of the old order of British capitalism, but rather the further intensification of a qualitatively distinctive Anglo-American sphere of development. The Euromarkets fundamentally Atlanticised British capitalism, bringing about a structural transformation in the orientation of key state institutions through which they embraced the emergence of offshore Euromarkets finance. In doing so they transformed the structures within which American policy makers and bankers operated and undermined the existing American financial order.

The transatlantic regulatory feedback loop

This section traces the dynamics and effects of the *transatlantic regulatory feedback loop* that emerged during the 1960s and stimulated processes of financial deregulation that gathered pace in the following decades. Bankers in Britain and America lobbied their national monetary authorities to enable further liberalisation to ensure the maintenance of competitive advantages, while central banks were forced to adjust their regulatory stance in response to the new challenges and jurisdictional ambiguities thrown up by the Euromarkets. By increasing the competitive pressure on British banks, the American influx destabilised the prevailing regulatory order within the City. These dynamics would pave the way for

[63] Ferguson, 'Warburg', p. 285.

the financial liberalisation that gathered momentum on both sides of the Atlantic during the 1970s and 1980s.

It is in the 1960s, then, that many of the originating Anglo-American developmental processes that subsequently fed into financial deregulation are located. Although the continuity of transformative processes linking the 'post-war' and 'neoliberal' eras of global capitalism has been astutely observed, the peculiarly Anglo-American accent of these transformations and their situation within the broader context of post-war Anglo-American development, have been overlooked.[64] Crucially, these Anglo-American dynamics also transformed patterns of international financial sovereignty and contributed towards a major recalibration of international banking regulation.

Interdependent monetary dynamics between the U.S. and the Euromarkets during the later 1960s began to affect the regulatory stance of the Fed. In August of 1969, the Fed introduced a 10% marginal reserve requirement for U.S. bank liabilities to overseas branches and on funds acquired by overseas branches from their U.S. head offices while also adjusting the required reserve level for other channels of offshore funding. The Eurodollar market was *driving regulatory transformations* on both sides of the Atlantic. Anglo-American developmental dynamics, centred upon financial integration, were at the heart of regulatory transformations in the world's two most important financial centres. For their part American officials allowed Eurodollar expansion, but they certainly did not devise it as a coherent pre-planned strategy for augmenting American financial power.

Nevertheless, there were regulatory changes undertaken in the U.S. in order to facilitate internationalisation.[65] But on balance the regulatory and policy context within the U.S. was more disabling than encouraging, with tight money in the U.S. and attempts to restrict lending from domestic offices the principal policy catalysts

[64] Konings, 'American Finance', p. 12; Panitch and Gindin, 'American Empire', p. 19.
[65] Andrew Brimmer and Frederik Dahl, 'Growth of American International Banking: Implications for Public Policy', *The Journal of Finance*, 30 (1975), pp. 341-363.

for international expansion.[66] This was a case of the regulatory escape of American banks from the restrictive New Deal regulatory apparatus and the series of measures undertaken to curb the chronic U.S. deficits position in order to save Bretton Woods. Once the market emerged, however, American policy makers certainly did seek to make use of it in order to promote their perceived national interests. In this respect then, both Panitch and Gindin, and Strange, correctly highlight its functionality to the deepening of American financial power.[67] American monetary authorities were coming to terms, *in a complex and contradictory fashion*, with an enormously fluid period in the history of the international monetary system.

For the Bank, the regulatory pressure emanated from the arrival of American banks with large deposit bases and a desire to exceed the dealing limits of British banks. Bank officials were keen to, 'forestall any Treasury worrying', regarding dealing limits. As American banks entered the market they had the effect of pushing up the level of dealing limits. It was thought that an attack on dealing limits would be an embarrassment to British banks, which needed them to effectively conduct operations. The Bank's adoption of a new policy, allowing larger dealing limits, was seen as, 'a purely defensive one forced on us by the very large number of American banks now coming to London'. But in insisting upon the maintenance of dealing limits Bank officials also believed that they were acting in the interests of the Americans, by preventing them from being associated with any decline in sterling's position.[68] By this point then, the Bank had already begun to *act on behalf of the interests of American banks*. This was a key moment in the integration of Anglo-American finance, with the Bank of England now recognising that its responsibilities had been Atlanticised through the City's role in hosting the offshore dollar business and the influx of American banks.

[66] Mark Mizruchi and Gerald Davis, 'The Globalization of American Banking, 1962 to 1981', in Dubbin (ed) *The Sociology of the Economy*, (New York: Russell Sage Foundation, 2004), pp. 95-127.
[67] Panitch and Gindin, 'Making Global Capitalism'; Strange, 'Lost Hegemony'.
[68] BoE Archives EID4/113 'Home Finance: Banking- General Papers 7/12/64-17/11/66', Internal memo, Bank of England- 'New American Banks in London- Dealing Limits', March 5th 1969.

There was concern about the American arrivals too. Bank officials reflected that people were, 'constantly wondering aloud whether the large and seemingly never-ending influx of American banks into London is an unalloyed benefit'. Regarding competition with British banks, it was inferred that British banks' willingness to help their American counterparts suggested that the newcomers were not an existential threat. Where competition for clients did appear likely, it was anticipated that the greater impact would be upon the UK-based American subsidiary clients of other American banks.[69]

On balance then, the Americanisation of the Eurodollar market was not viewed as a major concern for the Bank in terms of any perceived threat to the profitability of British banking. Where concern did arise, it centred upon how the Bank ought to adapt its regulatory stance and continue to safeguard sterling. Both on the question of lender of last resort responsibility and the issue of dealing limits, the Bank was rapidly recalibrating its policy. In the post-war period, the Bank had relied upon its relationship with a concentrated and cartelised banking sector to manage monetary policy and control credit levels. As the number of foreign banks operating in London grew it became increasingly difficult for the Bank to rely on its traditional relationship with a closed network of dominant British banks.[70] Economic planning and government management of financial markets became much harder. Credit markets were increasingly responsive to global demand fluctuations rather than the requirements of the British government.

The impact of the Euromarkets, then, was to crucially undermine some of the foundational struts of post-war Keynesian economic management in Britain, paving the way for the transition towards a liberalised financial system that would feed into the neoliberal revolution of the Thatcher era. In responding to these manifold new challenges, the Bank was adapting to the Euromarkets and creating a new form of international financial sovereignty: a form of *splintered sovereignty* constituted

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[69] Ibid.
[70] Ranald Michie, 'The City of London and the British government: the changing relationship', in Michie and Williamson (eds) *The British Government and the City of London in the Twentieth Century*, (Cambridge: Cambridge University Press, 2004), p. 44; Michael Moran, *The Politics of Banking*, (London: Macmillan, 1986), p. 2.

through Anglo-American development. National and international regulatory responsibilities became geographically fragmented and overlapping. Although hosting a growing number of foreign banks, a key component of the Bank's institutional functions, its role as a lender of last resort, remained exclusively national. Simultaneously, the presence of American banks brought the lender of last resort responsibility of the Fed into London, internationalising the Fed's regulatory reach and pulling American state sovereignty into the business operations of the City.

As Burn notes, the Bank's restored role had echoes of the classical gold standard era.[71] Yet Burn neglects the extent to which its role was now fundamentally different: the Bank now performed a subordinate and deeply integrated role within a new order of global finance that hinged upon an Anglo-American financial axis based around London and New York. This order did not rest upon the strength of sterling, but rather the rising dominance of the dollar as a surrogate currency that enabled the maintenance of the City's international role. In important ways, then, the Bank did not restore its old autonomy: it was severely circumscribed by subordinate integration with American financial power. Unevenly, this compromised both the autonomy of the Bank *and* the Federal Reserve.

The Euromarkets produced a *fracturing of jurisdictional authority* that spawned ambiguity over the international and national regulatory responsibilities of central banks. This spurred the evolution of regulatory regimes to clarify the situation in the following decades. In hugely important ways, then, the development of international financial regulation was an outgrowth of the generative force of Anglo-American development, with the intensifying interdependence between bankers and central banks in London and New York disrupting the existing international financial order of sovereign and nationally discreet financial systems.

The Bank's experience with the Eurodollar market and its discussion as early as 1964 of the limits to jurisdictional authority over foreign bank branches during crises, were the progenitors of 'home country rule'- a key innovation in

[71] Burn, 'City and State', p. 227; Burn, 'Global Finance', p. 184.

international financial regulation. Recall that Bank officials concluded that the Bank's lender of last resort responsibility for British banks 'cannot be held to apply in the same measure at all to the London branches or subsidiaries of foreign banks'. [72] London branches of foreign banks were deemed to fall outside of the purview of British authorities. They would instead fall under the responsibility of their head offices. Beyond the head offices, national central banks from the originating country would take ultimate responsibility.

In this way, then, 'home country rule' attributed the responsibility for defining and regulating financial institutions to the state and accorded responsibility for foreign branches to their originating national central bank. States would look to one another, rather than to supranational organisations, in order to legislate and enforce collective agreements on supervision.[73] Not only did the Bank stumble across this innovative principle in responding to the problems raised by the Euromarkets, it also led the development of this principle internationally. Crucially, then, Anglo-American development was producing qualitatively distinctive institutional mutations that transformed the landscape of global finance.

The regulatory challenge provided by the Euromarkets, alongside a series of major banking crises during the 1970s, led to acceleration in the development of international banking supervision.[74] As the banking crises of the early 1970s unfolded the Governors of the G10 central banks met to hammer out proposals for international supervision. These meetings produced the 'Basle Concordat', circulated widely amongst central banks and supervisory authorities. The Bank led these discussions, providing the first two chairmen of the committee.[75] The Basle

[72] Bo EArchives 6A123/1 'Economic Intelligence Department Files: Euro Currencies-Including Euro Dollars and Euro Bonds 1/1/64-31/7/65', Report on Meeting of Experts on the Euro-currency Markets at the BIS, November 9th -11th 1963.
[73] Ethan Kapstein, *Governing the Global Economy: International Finance and the State*, (Massachusetts: Harvard University Press, 1996), p. 324.
[74] The most prominent crises in this respect were the major losses of Lloyds' Lugano branch, the collapse of the Israel British Bank in Tel Aviv, the Franklin National Bank in New York and most notably of all the failure of the West German, Bankhaus Herstatt: Capie, 'Bank of England', p. 625.
[75] Ethan Kapstein, 'Resolving the regulator's dilemma: international coordination of banking regulations', *International Organization*, 43 (1989), pp. 323-347.

Committee on Banking Supervision, as it came to be known, had a strong British makeup, reflecting the Bank's epistemic authority as an institution at the centre of financial globalisation.[76]

In addition to the increasingly active stance taken by American authorities in managing the international monetary system, therefore, the Bank of England was fundamental to developing the supervisory framework required to accommodate financial globalisation. Key developments like the Basle Committee of Bank Supervisors stemmed from the initiative of the Bank and drew upon its institutional learning during the 1960s.[77] Kapstein has identified the significance of the combined efforts of the Bank and the Fed to solidify the first Basel Accord on capital adequacy in the early 1980s. But Kapstein's account overlooks the deeper context for the Bank and the Fed's combined leadership during the 1980s: that leadership was part of a continuum of Anglo-American developmental interdependence intensified by the Euromarkets.

New York and London were functioning as the twin pivots of financial globalisation and their attendant monetary authorities played an integral role in laying the institutional groundwork for this process. The Fed-Treasury-Wall Street nexus was increasingly articulated through and within the City-Bank-Treasury nexus as part of an Anglo-American engine-room of financial globalisation. Geographically, the City of London became central to the interaction of Anglo-American developmental dynamics. This was part of a transatlantic paradox: sterling's decline was accompanied by the City's rebirth, while the dollar's ascent led, counter-intuitively, to the diminishment of New York's status. Offshore was a distorting mirror through which Anglo-American development was reflected.

The deeper origins of neoliberal deregulation

[76] Charles Goodhart, *The Basel Committee on Banking Supervision, A History of the Early Years, 1974-1997*, (Cambridge: Cambridge University Press, 2011).
[77] Kapstein, 'Regulator's Dilemma', p. 324.

The evolution of the City's role within a newly Atlanticised framework transformed British banking. It created divisions within the City that would threaten the coherence of the City-Bank-Treasury nexus. As the Euromarkets grew they effectively split the City into two discreet sectors with divergent spatial accumulation orientations. On the one hand, an offshore internationalist world over which British merchant banks and foreign banks presided, with only a tangential relationship to the fate of the national economy. On the other, a domestic cartel of British clearing banks that had been more tightly integrated with national industry and financing within the Keynesian institutional order and which suffered under the continuing travails of the British economy during the 60s and 70s.[78]

American banks brought new management techniques and financial innovation into the London market, these led to synthetic forms of Anglo-American financial innovation that transformed global financial practices. More importantly, these developments further intensified the transatlantic regulatory feedback loop by prompting recalibrations of national monetary regimes on both sides of the Atlantic to deal with the new competitive challenges thrown up by Anglo-American financial development. This section demonstrates that these Anglo-American transformations fed through into the deregulation of the early neoliberal period, drawing on archival evidence from the Bank of England. These deregulatory dynamics were not simply a case of the ascent of neoliberal ideology. They were in fact a consequence of competitive processes of financial integration that began with the Euromarkets several decades prior.

The most notable financial innovation that the Americans brought to the City was the introduction of Certificates of Deposit in May 1966, a move that was mirrored by the issuing of sterling CD's by British banks from 1968.[79] The negotiability of CD's, pioneered in the U.S. money markets earlier in the decade,

[78] Michie, *City of London*, pp45-46.
[79] Certificates of Deposit are negotiable certificates received by the depositor in return for a time-deposit placed with a bank: *Oxford Dictionary of Finance and Banking*, Fourth Edition, (Oxford: Oxford University Press, 2008).

enabled them to function as liquid assets.[80] American banks also introduced the 'going-concern' approach to lending, with future expected earnings rather than the resale value of their assets now the principal criteria for evaluating a borrower's creditworthiness. Covenants imposed by American banks, through which they monitored the profitability of borrowing businesses, led to an intensified role for banks in restructuring business operations in periods of crisis.[81] The growth of the Euromarkets standardised banking practices on both sides of the Atlantic. Techniques of American banks were merged with practices in Britain and then exported back to America, driving homogenisation. As new Eurocurrency markets emerged in other countries, the banking practices pioneered by British and American banks in London began to be transmitted worldwide.[82] Another notable innovation was the introduction of rollover credits. These new loans, 'combined the interest-rate flexibility of British overdrafts with the legal formality of US medium-length term loans'. Instead of a fixed interest rate for the entire span of the loan, the rate would be fixed for certain intervals of time (3-6 months) and then adjusted in line with the changing market rates on bank deposits. The LIBOR rate was used as the basis for these calculations, reflecting the international predominance of the London market. These innovations were part of a process whereby wholesale bankers pioneered techniques for passing on interest rate risks to borrowers at rollover dates that were directly linked to funding costs.[83]

The growth of offshore banking increased competition for deposits denominated in major currencies, with American banks competing for sterling deposits. This had the effect of increasing the competitiveness of the sterling deposit market.[84]British

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[81] Jerry Coakley and Laurence Harris, *The City of Capital: London's Role as a Financial Centre*, (Oxford: Blackwell, 1983), pp. 138-140.

[82] M. Lewis & K. Davis, *Domestic & International Banking*,(Hemel Hempstead: Philip Allan, 1987).pp. 9 & 83.

[83] Banking Information Service *,International Banking: The role of the Major British Banks*, (London: Banking Information Service, 1985), p. 11.

[84] Robert Aliber, 'Eurodollars: An Economic Analysis', in Savona and Sutja (eds), *Eurodollars and International Banking*, (Basingstoke: Macmillan, 1985), pp. 77-98; Geoffrey Jones, 'Competition and Competitiveness in British Banking, 1918-1971', in Jones and Kirby (eds)

banks were forced to respond to the competitive challenge posed by the Americans. While the merchant banks were prominent players in the first decade of the Euromarkets, their limited deposit bases restricted their capacity to compete as the markets grew.[85] The British clearing banks, which avoided a sustained entry into the Euromarkets until the 1970s, had been sheltered from competition through their cosy relationship with the Bank.[86] The entry of the Americans provided a competitive jolt to the British banks.[87]To compete with their well-capitalised American counterparts, British banks moved towards universal banking and away from traditional divisions between merchant and commercial banking.[88]

These transformations required a corresponding regulatory recalibration and the Conservative government's 1971 'Competition Credit and Control' (CCC) policy offered exactly that. It broke from the moves towards credit rationing by administrative decree, which had proliferated during the tight money policy of the 1960s, freeing up credit markets by substituting price levels for government controls as the decisive determinant of credit supply.[89]

In fact, then, the origins of the deregulatory dynamics of the 1970s and 1980s are traceable to the Anglo-American transformation of financial markets during the 1960s. Mirroring the imperatives of CCC and increasingly conscious of the competitive challenge that the City posed to New York, deregulation began to gather pace in the U.S. Nixon called for the gradual phasing out of interest rate ceilings in 1973 while the Securities and Exchange Commission brought about New York's 'Big Bang' in 1975, breaking from its longstanding support for the cartel-like organisations that had dominated American capital markets since the 1930s.[90] From

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Comeptitiveness and the State: Government and Business in Twentieth Century Britain, (New York: Manchester University Press, 1991), pp. 120-141.

[85] Jones, 'Multinational Banking', p. 326.

[86] Jones, 'Competition and Competitiveness', p. 135.

[87] Moran, 'Politics of Banking', p. 22.

[88] Stefano Battilossi, 'Banking with Multinationals: British Clearing Banks and the Euromarkets' Challenge, 1958-1976', in Battilossi and Cassis (eds), *European Banks and the American Challenge: Competition and Cooperation in International Banking Under Bretton Woods*, (Oxford: Oxford University Press, 2002), pp. 103-135.

[89] Moran, 'Politics of Banking', p. 30.

[90] Panitch and Gindin, 'Making Global Capitalism', p. 149.

the late 1970s, the problem of growing foreign competition for securities business, with the London challenge central, further destabilised the SEC's regulatory stance.[91]

When the Thatcher government decided to liberalise exchange controls in 1979, the decision occurred against a backdrop of wider international regulatory competition in which competition between Britain and the U.S. was centre stage. In the run up to the decision to liberalise, the Bank produced detailed reports on the abolition of exchange controls in both the U.S. and Japan.[92] Anglo-American competition to attract Eurodollar business into their respective financial centres provided the definitive context within which the decision over liberalisation occurred. We should, therefore, view the decision to further liberalise exchange controls and further open up the City's financial markets within the broader lineage of Anglo-American development and the competition between New York and London, which lay at the heart of this process. Liberalisation was not simply a consequence of philosophical preferences towards free markets, but rather a response to the competitive challenge posed by New York.

The continuing dynamics of the transatlantic regulatory feedback loop were also evidenced in the 1978 proposal by the New York Clearing House Association to grant New York a specialised status as a "monetary free trade zone". The plan attempted to draw offshore banking back into the U.S. by encouraging both American and foreign banks to establish "International Banking Branches" (IBBs) in New York.[93] This proposal posed a major competitive challenge to London's status as a centre for offshore banking and was undertaken by the New York authorities

[91] David Landau, 'SEC Proposals to Facilitate Multinational Securities Offerings: Disclosure Requirements in the United States and the United Kingdom', *New York University Journal of International Law & Politics* 19 (1987), pp. 457-478; Bevis Longstreth, 'Global Securities Markets and the SEC', *University of Pennsylvania Journal of International Business and Law*, 10 (1988), pp. 183-193.

[92] BoE Archives, EC5/649, 'Exchange Control Act File: Relaxations- Papers Covering the Relaxation and Dismantling of Exchange Controls 6/9/79-17/9/79', 'Exchange Controls in the USA', July 26th 1979; 'Japan Exchange Control', July 26th 1979.

[93] BoE Archives, 4A115/3, 'Monetary Analysis: External Development and Policy Meetings 4/1/78-28/12/79', Memo from the Bank of England Overseas Department, 'New York as a Free Trade Banking Zone', May 31st 1978.

with exactly this intention in mind. By drawing the rapidly expanding offshore banking business back into New York, it was hoped that major benefits would accrue to the city, the U.S. Treasury and the banks themselves.

Under the new scheme IBBs would be able to make loans to, and take deposits from, overseas borrowers, without being encumbered by the reserve requirements and interest rate controls that were applied within the U.S. This constituted an attempt by American regulators and bankers to consciously and strategically reproduce the kind of conditions that had drawn American banks into the City of London's Euromarkets en masse during the 1960s. The plan would require the amendment of the Fed's Regulation D, which as part of the New Deal regulatory framework governed the reserve requirements for banks in the U.S. And crucially, the plan would also require the amendment of Regulation Q, which prohibited payment of interest on deposits that fell short of 30 days.[94]

The competitive dynamics between rival financial centres, New York and London, that had intensified through the emergence of the Euromarkets were now driving the further erosion of the New Deal regulatory architecture in the U.S. and the homogenisation of Anglo-American regulatory regimes, as American authorities attempted to bring offshore business back under American territorial auspices by aping the regulatory climate of the City of London. The transatlantic regulatory feedback loop continued to have an enormous impact on regulatory frameworks on both sides of the Atlantic. Existing accounts of American financial deregulation during the Volcker era have understated the centrality of these Anglo-American dynamics.[95] Much of what was going on in the transformation of national monetary regimes during the later 1970s and 1980s revolved around the attempt to bring offshore back onshore by liberalising domestic monetary regimes.

[94] BoE Archives, 4A115/3, 'Monetary Analysis: External Development and Policy Meetings 4/1/78-28/12/79', Memo from the Bank of England Overseas Department, 'New York as a Free Trade Banking Zone', May 31st 1978.

[95] See: William Greider, 'Secrets of the Temple: How the Federal Reserve Runs the Country', (New York: Simon & Schuster, 1987), p. 155; Greta Krippner, *Capitalizing on Crisis: The Political Origins of the Rise of Finance*, (London: Harvard University Press, 2012), p. 73; Panitch and Gindin, 'Making Global Capitalism', p. 169.

Between 1978 and 1981, the Euromarkets and offshore banking were central to the interactions between British and American monetary authorities. As banks on each side of the Atlantic pushed their governments to create regulatory conditions favourable to competing internationally, the existing regulatory orders gradually broke down. These effects continued to erode American financial regulation during the 1980s. Regulatory transformations in the U.S. then fed back into Britain, with the further liberalisation during the 1980s and Thatcher's own 'Big Bang' carried out after British officials had visited the U.S. in order to learn from the American regulatory apparatus.[96]

Conclusion: Anglo-American development and neoliberal deregulation

The birth of the Euromarkets in the City of London represented a defining moment in the post-war history of global finance. As this article has suggested, existing accounts have missed the significance of the emergence of an Anglo-American field of development cradled within the City of London and its feedback effects upon the U.S. This was not a case of monolithic US structural power shaping the options of Britain, but rather of British development, motivated by banking capitalists and the Bank in pursuit of their own ends structuring the options of American finance and, subsequently, of the monetary and fiscal policies of American state institutions. By treating America's post-war ascendancy and British decline as separate problematiques, scholars have neglected the extent to which Britain's role was key to the transformation of American capitalism, by generating competitive pressures that contributed to the dismantlement of the New Deal regulatory architecture and reducing the efficacy of unilateral American monetary policy. It was Britain's peculiar imperial history, long-standing commitment to an open international

[96] Michael Moran, 'The State and the Financial Services Revolution: A Comparative Analysis', *West European Politics*, 17 (1994), pp. 158-177.

financial order and the construction of an offshore political-economic space by merchant bankers and the Bank, in contrast to the controls put in place by other European states, which enabled American banking to break through its national boundaries, reconfiguring the international monetary system in the process.

This article has argued that Anglo-American development, centred upon a series of institutional interdependencies, was central to the reconstitution of global finance through the genesis of the Euromarkets. The Euromarkets brought about a qualitative transformation in the orientation of British capitalism, tying it increasingly into a symbiotic relationship with American state institutions and bankers. Interactive processes of 'regulatory embrace' and 'regulatory escape' drew together a synthetic combination of Anglo-American finance within the City of London from the 1960s and set in motion a 'transatlantic regulatory feedback loop' that played a key role in driving competitive deregulation in London and New York during the 1970s and 80s. By unsettling national monetary regimes on both sides of the Atlantic, as well as giving rise to a broader reconfiguration of the international financial regulatory order through Basle, the Euromarkets played a fundamental role in the genesis of financial globalisation and the recalibrated regulatory regimes that provided the basis for global finance to expand. It is in this period of regulatory disruption and globalising financial innovation that the deeper origins of financial deregulation lay. Conventional accounts have, as this article has shown, overstated the determinacy of neoliberal ideology in driving financial deregulation in Britain and the US, the two states that are widely identified as the most influential authors of neoliberal policies.

Through their emergence the Euromarkets compromised national forms of financial sovereignty as the new archival evidence in this article has revealed. This led to new regulatory concepts such as 'home country rule' in order to adjudicate regulatory responsibility in a newly globalising era of splintered financial sovereignty which complicated and disrupted existing post-war national regulatory orders. The Bank's leadership role, overlooked within existing IPE scholarship, was absolutely crucial. Indeed, the coordinated attempts of the Bank of England and the Federal Reserve to lead the reformulation of international financial regulation in the decades that followed the birth of the Euromarkets have their roots in the interdependencies generated by the attempts of Anglo-American monetary orders to manage both the crises of Bretton Woods and the challenges of the Euromarkets during the 1960s.

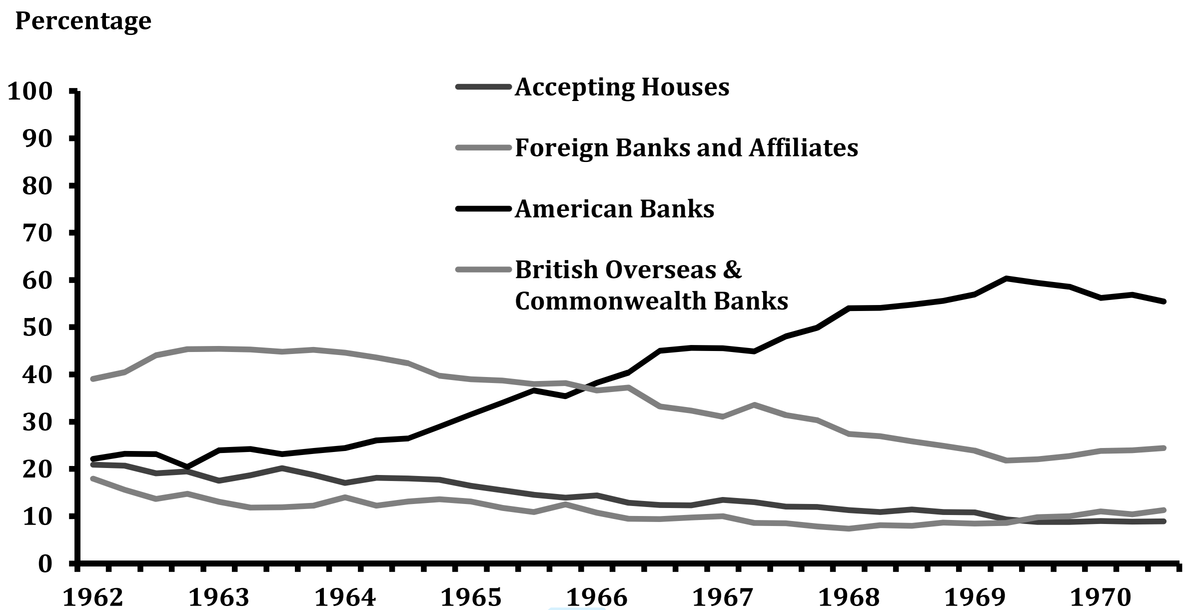
In more general terms, the arguments and evidence presented in this article should prompt IPE scholars to explore interlinked processes of complex and uneven international development in order to understand the transformation of the global economic order. These processes are relevant not only to relations between developed and underdeveloped countries, but also highly germane for understanding the manner in which the power of dominant states such as the U.S. has been expressed through complex and co-constitutive patterns of uneven interdependence with other major capitalist states. Interdependence with Britain did not simply facilitate the expansion of American financial power; it also severely compromised aspects of American monetary sovereignty and spurred domestic change. In this sense, the relationship between Britain and the U.S., through Anglo-American developmental processes, has been and continues to be essential to understanding the contours of the global political economy. The Euromarkets were central to the inter-bank lending freeze during the Global Financial Crisis of 2007-8 and the continuing absence of a formal global lender of last resort meant that the financial system relied upon ad hoc and delayed interventions by Federal Reserve and the Bank of England to pump-prime money markets through Quantitative Easing and loose monetary policy. The threat of crisis anchored within the post-war Anglo-American order continues to cast a long shadow over the global political economy with many of the issues pertinent to their emergence still unresolved today.

RIS 1.1

Figure 1.1

London Banks, 1962-1970

Market Share Current Account Deposits of Overseas Residents (All Currencies)



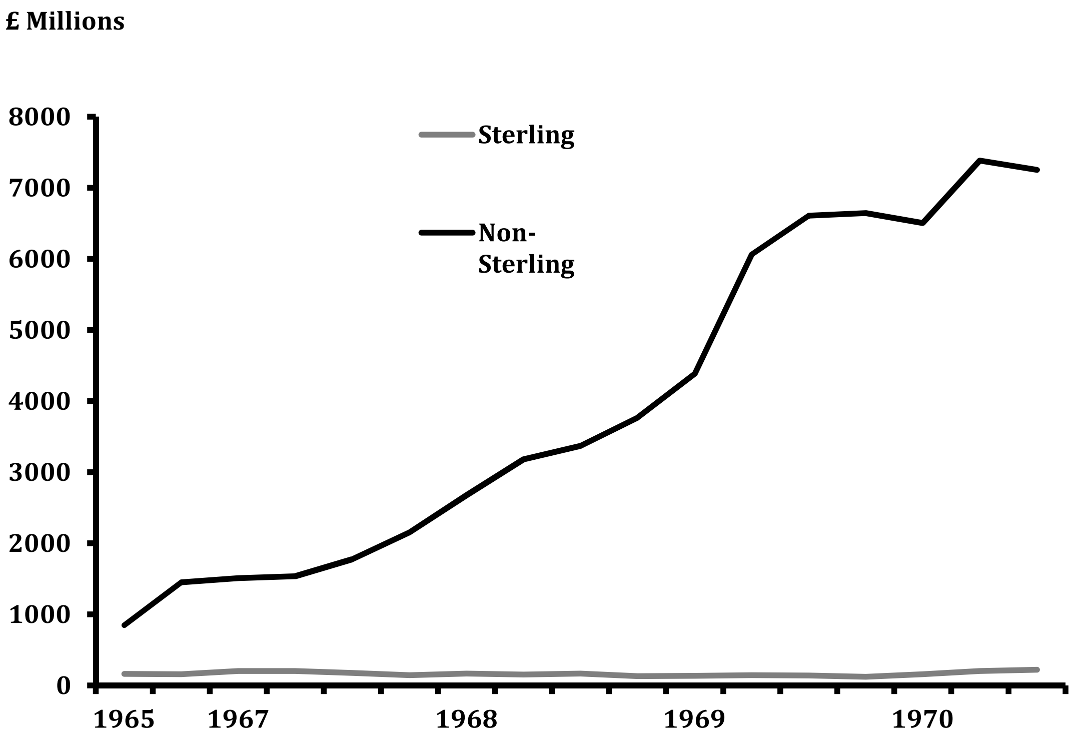
Source: Bank of England Quarterly Bulletin Statistical Annex 1962-1970. Yearly values from 1965-1967, quarterly values thereafter.

RIS 1.2

Figure 1.2

American Banks, 1965-1970

Total Current Account Deposits of Overseas Residents



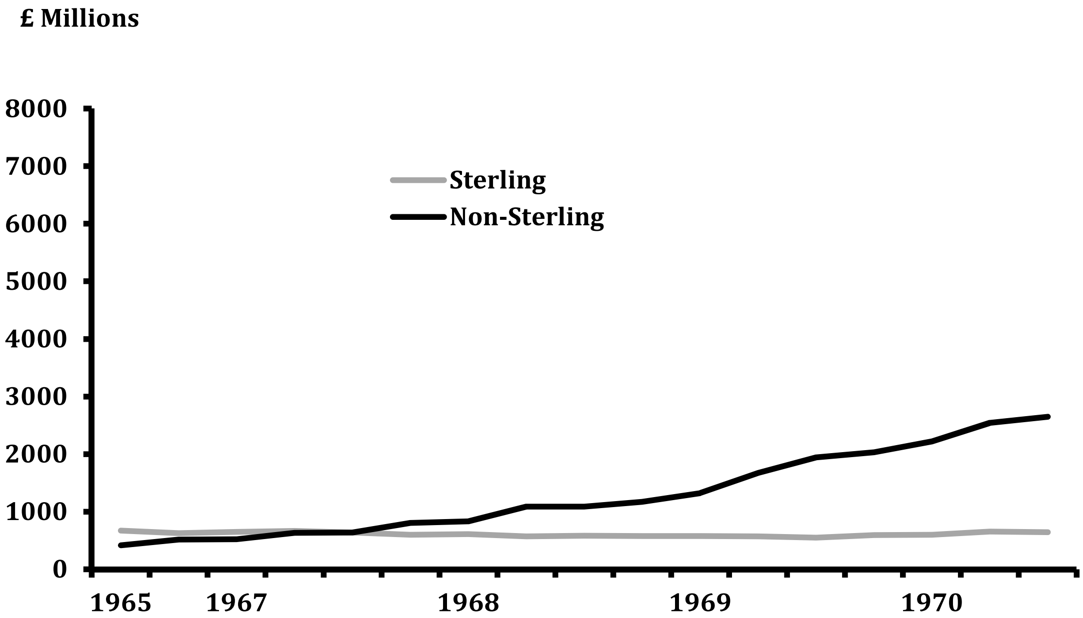
Source: Bank of England Quarterly Bulletin Statistical Annex 1962-1970. Yearly values from 1965-1967, quarterly values thereafter.

RIS 1.3

Figure 1.3

British Overseas and Commonwealth Banks, 1965-1970

Total Current Account Deposits of Overseas Residents



Source: Bank of England Quarterly Bulletin Statistical Annex 1962-1970. Yearly values from 1965-1967, quarterly values thereafter.

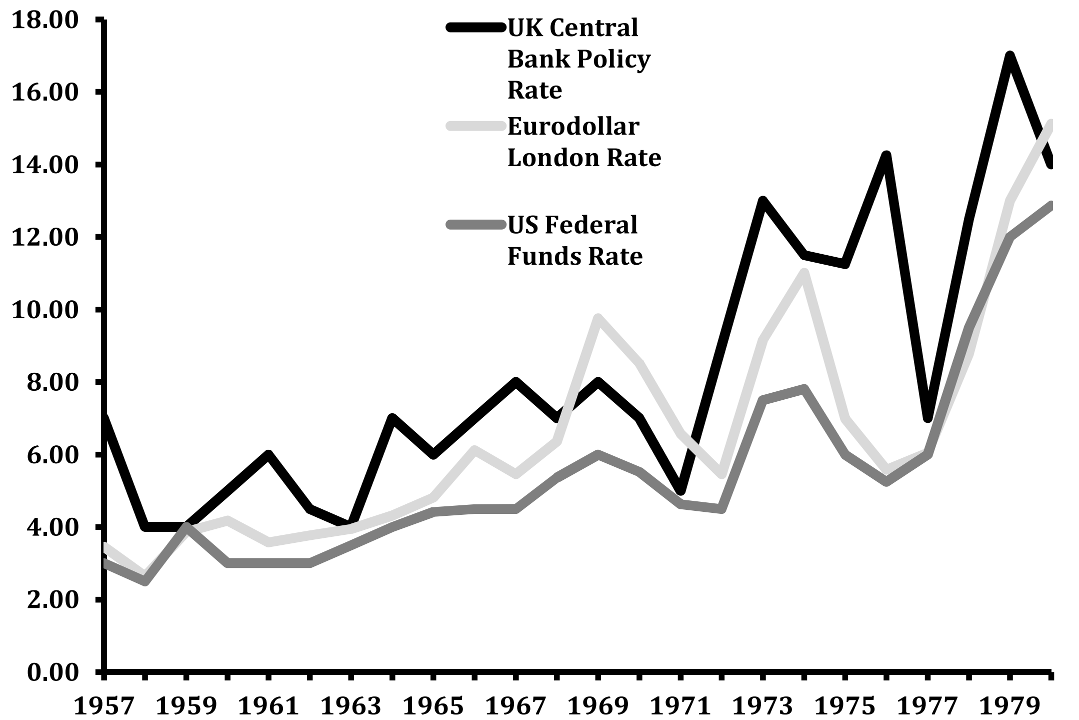
RIS 2.1

Figure 2.1

Comparative Interest Rates, 1957-1980

UK Bank Rate, US Federal Funds Rate and London Eurodollar Rate

Percentage



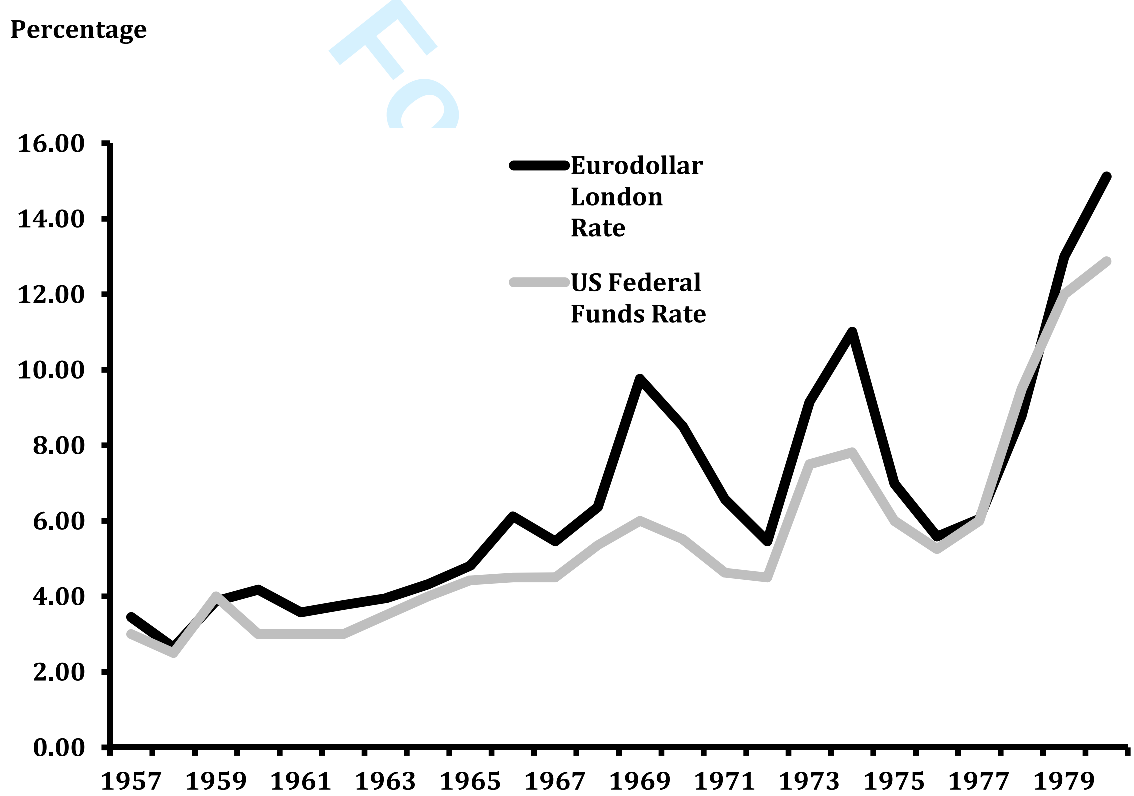
Source: Global Insight Database, IMF International Financial Statistics United Kingdom Interest Rates Central Bank Policy Rate Percent Per Annum (1948-2011) IMF code: 11260ZFHS52; IMF International Financial Statistics United Kingdom Interest Rates Euro Dollar London Rate Percent Per Annum (1957-2011) IMF code: 11260DZFHA52; IMF International Financial Statistics United States Central Bank Policy Interest Rate Percent Per Annum (1948-2011) IMF code: 11160ZFHS52

RIS 2.2

Figure 2.2

Comparative Interest Rates

London Eurodollar Rate and US Federal Funds Rate, 1957-1980



Sources: Global Insight Database, IMF International Financial Statistics United Kingdom Interest Rates Euro Dollar London Rate Percent Per Annum (1957-2011) IMF code: 11260DZFHA52; IMF International Financial Statistics United States Central Bank Policy Interest Rate Percent Per Annum (1948-2011) IMF code: 11160ZFHS52

Anglo-American Development, the Euromarkets and the Deeper Origins of Neoliberal Deregulation

Abstract

This article challenges existing accounts of the development of the Euromarkets by arguing that their emergence constituted the foundational moment in the advent of post-war Anglo-American developmental field. The account contends the notion of a post-war order shaped predominantly by the outward expansion of American financial power, by de-privileging the exclusivity of American power and arguing that co-constitutive Anglo-American developmental processes were the generative force that produced the Euromarkets . Drawing upon new archival material , the article suggests that an Anglo-American developmental sphere, in which Britain continued to play a crucial but subordinate role, was key to the unfolding of post-war financial globalisation. The Anglo-American developmental processes occasioned by the Euromarkets gave rise to a 'transatlantic regulatory feedback loop' that stimulated deregulation on both sides of the Atlantic and placed Anglo-American capitalist interdependence at the centre of the politics of globalisation . The deeper origins of financial deregulation lie in the transformation of Anglo-American finance during the 1960s.

Introduction

The emergence of the Euromarkets has commonly been understood either as a consequence of the changing relationship between states and markets, or as a product of the outward expansion of American finance. This article challenges prevailing accounts. Drawing upon archival material from the Bank of England and the Treasury, the article proposes that the Euromarkets were central to an emerging Anglo-American developmental sphere.[1] Anglo-American developmental processes occasioned by the Euromarkets played a defining role in the politics of globalisation, spawning novel institutional forms of hybrid Anglo-American financial development in the City of London. These Anglo-American dynamics transformed the regulatory

[1] The term 'Euromarkets' applies to transactions of offshore currency in two distinct but related markets: the 'Eurocurrency/Eurodollar' and 'Eurobond' markets.

orders on both sides of the Atlantic in a highly interactive manner, eroding the regulatory architecture of the post-war Keynesian state in Britain and destabilising American New Deal regulations. Anglo-American dynamics also reordered the broader regulatory context of international banking through the development of offshore and the emergence of the Basle regime. The Euromarkets set in motion a 'transatlantic regulatory feedback loop' that destabilised transatlantic regulatory regimes. Many of the deregulatory moves in Britain and America during the ideological transformation of the 'neoliberal era' were incubated during the 1960s.

The article begins by reviewing existing literature on the Euromarkets, suggesting that scholars have overlooked the constitutive role of Anglo-American development. An alternative conceptual framework, focusingupon the institutional connectivity underpinning Anglo-American development, is then outlined. In the second half, the article turnstowards the institutional outcomes of Anglo-American development by examining evidence on Anglo-American interest rate interdependence alongside previously unpublished archival evidence from the Bank of England and the Treasury, some of which has only recently become available under the thirty-year rule. This evidence reveals the impact of arriving American banks upon the institutional development of the Bank of England and the integration of Anglo-American money markets. A number of novel institutional developments, emerging from the co-constitutive interaction of Anglo-American finance, and their significance for the broader transformation of the international financial system, are discussed. Finally, the article explores the impact of the transatlantic regulatory feedback loop and its significance for understanding the deeper Anglo-American origins of financial deregulation.

States, markets and the Euromarkets

The debate over the Euromarkets has focused upon three main themes: firstly, attempting to identify their specific historical origins,[2] secondly, understanding their relevance to Britain's national development[3] and, finally, their relevance to the international transformations associated with the collapse of the Bretton Woods system.[4] Within the IPE literature, a subset of scholars has argued that the emergence of the Euromarkets was functional to the deepening of American structural and financial power associated with American hegemony or imperialism.[5]

The IPE literature on the Euromarkets has been criticised for reducing the debate to a simple dichotomy between state and market. Responsibility for the development of the Euromarkets is then accorded *either* to state agencies *or* market operators. In reality the responsibility for the emergence of the Euromarkets is hard to pin down in bifurcated terms. In Britain the key institution, the Bank of England, acted as an interface between the state and the market and played the roles of 'poacher and gamekeeper' simultaneously.[6] Blurring the boundary between state and market renders conventional IPE accounts of the Euromarkets highly problematic.

Gary Burn's excellent corrective to the 'states versus markets' dichotomy has captured many of the institutional and historical specificities of the Euromarkets'

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[2] See: Geoffrey Bell, *The Euro-dollar Market and the International Financial System*, (London: Macmillan, 1973); Catherine Schenk, 'The Origins of the Eurodollar Market in London: 1955-63', *Explorations in Economic History*, 35 (1998), pp. 221-238.
[3] See: Gary Burn, *The Re-Emergence of Global Finance*, (Basingstoke: Macmillan, 1998); Geoffrey Ingham, *Capitalism Divided? The City and Industry in British Social Development*, (London: Macmillan, 1984).
[4] See: Fred Block, *The Origins of International Economic Disorder: A Study of United States International Monetary Policy from World War II to the Present*, (Berkeley: University of California Press, 1977); Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System*, (Princeton: Princeton University Press, 2008); Eric Helleiner, *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s*, (London: Cornell University Press, 1994)
[5] See: Peter Gowan, *The Global Gamble: Washington's Faustian Bid for World Dominance*, (London: Verso, 1990); Martijn Konings, *The Development of American Finance*, (Cambridge: Cambridge University Press, 2011); Leo Panitch and Sam Gindin 'Finance and American Empire', in Panitch and Konings (eds), *American Empire and the Political Economy of Global Finance*, (London: Macmillan, 2009), pp. 17-48; Susan Strange, 'The Persistent Myth of Lost Hegemony', *International Organization*, 41 (1987), pp. 551-574.
[6] Burn, 'The State', pp. 227 and 241.

origins. Burn's account, however, neglects the substantive impact of Anglo-American development in recalibrating global capitalism. It is with the interlinking Anglo-American developmental processes and institutional transformations arising from the Euromarkets, rather than their historical genesis, that this article is primarily concerned. Burn's assertion that the importance of the Eurodollar market lies ultimately in, 'the resurrection of an institutional state structure reminiscent of that which defined the pre-1931 City-Bank-Treasury nexus', overlooks the way in which the British state wasqualitatively transformed through its incorporation within an Anglo-American developmental sphere.[7] By arguing that the City effectively regained its autonomy through the Eurodollar market, Burn neglects the extent to which the arrival of the American dollar and American banks in London drew American state power into the affairs of the City and redefined British sovereignty.[8]

Power did remain concentrated within the City-Bank-Treasury nexus, yet it was articulated through and embedded within a new, fundamentally distinctive, order of Anglo-American finance. The City-Bank-Treasury nexus remained dominant within the British state because it was able to integrate itself within an internationalising Federal Reserve-Wall Street-Treasury nexus at the heart of American capitalism. This new order of Anglo-American finance, embedded within an Atlanticised British capitalism, proved central to the incubation of financial globalisation and liberalisation that gravely undermined, in synchronicity, the Bretton Woods monetary order and national monetary orders in Britain and the U.S.

A further grouping of scholars have pointed towards the special role that the U.S. has played in the constitution of global capitalism.[9] Panitch and Gindin view the collapse of Bretton Woods and the emergence of financial globalisation not as a consequence of globalising markets escaping the control of national states, but

[7] Burn, 'The State', p. 227; Burn, 'Global Finance', p.184.
[8] Burn, 'Global Finance', p. 135.
[9] Gowan, 'Global Gamble'; Panitch and Gindin, 'Finance and Empire'; Konings, 'American Finance'.

rather as a result of the international expansion of American finance.[10] Similarly, Konings critiques adherents of the 'states versus markets' approach for missing the extent to which the globalisation of finance from the 1960s was an outgrowth of American finance.[11]

These accounts provide an indispensable tonic to the literature that, misleadingly, viewed globalisation in terms of the 'retreat of the state'. Theorists of American power have, however, overlooked the emergent Anglo-American field of developmental interactivity that was fundamental to financial globalisation.[12] We need to look beyond the expansive dynamics of American finance and towards the co-constitutive developmental processes that occurred through the interaction of bankers and monetary officials in the City and New York. This requires that we de-privilege the exclusive role of an outward expansion of American finance or unilateral American 'structural power'.

Konings' account makes important correctives to the structural power approach by challenging the ontologisation of the states and markets separation and elucidating the historical co-articulation of state power and structural power within US capitalism. Despite this modification, however, his explanation of post-war financial globalisation is overreliant upon a notion of the externalisation of internal American developmental dynamics and America's role in, 'shaping the preferences and influencing the structural conditions under which other actors make decisions'.[13] Britain's causal force in authoring financial globalisation is rendered invisible. Accordingly, the City becomes an analytical vacuum into which American banks simply move in the face of limits upon their internal development. The City is

[10] Leo Panitch and Sam Gindin, *The Making of Global Capitalism: The Political Economy of American Empire*, (London: Verso, 2012), p. 119.
[11] Konings, 'American Finance', p. 88.
[12] In a similar vein, Rawi Abdelal has criticised the literature on financial globalisation for failing to appreciate Europe's central role from the 1980s onwards. Abdelal, however, overlooks the role of Anglo-America, leaving Britain's role under theorised: Rawi Abdelal (2007) *Capital Rules: The Construction of Global Finance*, (Cambridge: Harvard University Press).
[13] Martijn Konings, 'The Construction of US financial power', *Review of International Studies*, 35(1) (2009), pp. 69-94.

reduced to a release valve for the contradictions of American finance.[14] This focus elides the manner in which American structural power was constituted through transatlantic interactivity. As formulated by Strange, structural power never came to terms with the complex processes of uneven and combined international development that *generated*, often quite accidentally, the institutional capacities that underpinned America's post-war power.[15] Without highly contingent and specific institutional developments within Britain, that reflected the agency of specific social forces and state managers as they wrestled with the distinctive challenges of managing Britain's transition to post-imperial power, there would have been no spatial fix for American finance. British state institutions and merchant bankers pulled in American finance by adapting their institutional orientations and capacities and Atlanticising British capitalism.

This required a redefinition of sovereignty, both in terms of the spatial extension of regulatory responsibility for the Bank of England and the embedding of the fiscal basis of the Treasury within the Euromarkets. The under-theorised status of the constitution of political-economic space in American power approaches leads to an under appreciation of the centrality of the City's entrepôt role in furthering globalisation.[16] Britain's state had been internationalised *par excellence* during the 19th century and it was this legacy that was revitalised through the emergence of 'offshore' as a novel form of political-economic space. The intersection of capitalist and state agency, through the lobbying power of key merchant bankers, was central. In broader terms, Britain's longstanding entrepôt role was redefined through

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[14] See: Konings, 'Construction of US power', pp. 86-87; 'American Finance', pp.93-98.

[15] Strange's formulation of structural power is circular: America has structural power because it can shape the choices and preferences of other actors, but it can do so only because it already has acquired structural power. There is no notion of how structural power capacities develop diachronically within this ahistorical tautology.

[16] For a discussion of the problem of political space in Panitch and Gindin's work see: J.Z. Garrod 'A Critque of Panitch and Gindin's Theory of American Empire', *Science & Society*, 79:1 (2015), pp. 38-62.

'offshore' to cope with the demise of sterling and harness the dollar.[17] By missing these dynamics Konings, along with other scholars, overstates the domestic origins of the US turn to monetarism and neoliberalism from the late 1970s and obscures the developmental impact of the transatlantic regulatory feedback loop in driving financial deregulation.[18] It is not enough to read off financial globalisation from the 'development of American finance', we need to problematise 'Anglo-American development' as the creation of a distinctive form of transatlantic political-economic space, more broadly. American banks may have filled that space, but it was the British state and British bankers that constructed the 'offshore' environment that enabled financial globalisation through the City and integrated Anglo-American capitalism. This was not, therefore, simply a case of the internationalisation of the American state, but rather a synthetic form of Anglo-American development that ensured that the American Federal Reserve-Treasury-Wall Street nexus was articulated in and through the City-Bank-Treasury nexus in Britain. In the process, both national capitalisms were transformed, with a reduction in monetary policy autonomy and a deeper integration of their respective financial systems. The post-war period was not only about the US state structuring the options of other national capitalisms, its own policy options and business strategies were structured by developmental dynamics driven by social forces in Britain. Understanding this is crucial to understanding the subsequent role of Anglo-American leadership in driving forward the politics of financial globalisation. Recognising the significance of Anglo-American development serves as an important corrective to the overstated role of neoliberal ideology in shaping financial globalisation from the 1980s.[19] Many of the deregulatory dynamics consummated during the neoliberal era arose as a response to processes that emerged during the crisis years of Bretton Woods.

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[17] For theorisation of the City's entrepôt role see: G. Ingham 'Commercial capital and British development: a reply to Michael Barratt Brown. *New Left Review*, 1(172) (1988), pp. 45-66.

[18] See: Konings, 'American Finance'; Greta Krippner, '*Capitalizing on Crisis: The Political Origins of the Rise of Finance*, (Cambridge: Harvard University Press, 2011).

[19] See in this regard: David Harvey, *A Brief History of Neoliberalism*, (Oxford: Oxford University Press, 2005); Joel Krieger, *Reagan, Thatcher and the Politics of Decline*, (Oxford: Oxford University Press, 1986).

Conceptualising Anglo-American Development

IPE scholars have emphasised cycles of UK/U.S. hegemony, but rarely considered the interactivity of Anglo-American development.[20] Examining Britain and the U.S. within a unified analytical lens allows us to uncover the constitutive dynamics of 'Anglo-American development' that generated American structural power in the post-war period by securing dollar hegemony. The emergence of the Euromarkets represents a key instance of Anglo-American development. It sowed the seeds for financial globalisation and gravely undermined the Bretton Woods system of fixed exchange rates. The flows of hot money unleashed by the Eurodollar market destabilised sterling and the dollar during the 1960s and 1970s.[21] By increasing the exposure of these two key currencies to speculative attacks, the Eurodollar market played a central role in the collapse of fixed exchange rates. But, paradoxically, the Euromarkets entrenched the hegemony of the dollar, ensuring its international supremacy even after its fixed convertibility to gold was terminated.

The lineages of Anglo-American development can be traced back much further, to the interwar years. The First World War debilitated Britain and strengthened its U.S. creditor. With sterling and the British economy weakened, the City was forced to draw upon American financial support in order to re-launch the gold standard and restore sterling convertibility.[22] As sterling weakened and the

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[20] See: Robert Cox, *Production, Power and World Order: Social Forces in the Making of History*, (New York: Columbia University Press, 1987); Robert Gilpin, *U.S. Power and the Mutlinational Corporation: The Political Economy of Foreign Direct Investment*, (New York: Basic Books, 1975); Robert Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy*, (Princeton: Princeton University Press, 1984).

[21] Block, 'Origins of Disorder', p. 197; Susan Strange, 'The Dollar Crisis 1971', *International Affairs*, 48 (1971), pp. 191-216.

[22] Kathleen Burk,'The House of Morgan in Financial Diplomacy, 1920-30', in McKercher (ed) *Anglo-American Relations in the 1920s: The Struggle for Supremacy,* (London: Macmillan,

dollar strengthened, the management of the two currencies became increasingly intertwined. Britain's singular role at the centre of the global financial system was de-privileged and the U.S. became integral.[23]

The failure of Anglo-American management of the inter-war international monetary system had a formative impact upon the priorities instituted at Bretton Woods. Anglo-American collaboration formed the foundation for the post-war international economic order constructed in New Hampshire.[24] The new regime instituted at Bretton Woods was a direct response to the challenges faced during the 1920s and 1930s.[25] And just as Anglo-American dynamics had been central to the interwar period, they were now institutionalised through the Bretton Woods agreement.

A series of key institutional connections between state managers and bankers were at the heart of deepening Anglo-American interdependence. The Treasuries and central banks of Britain and the U.S. were brought into ever-closer contact by their attempts to manage the international monetary system. The significance of the City-Bank-Treasury nexus within British development has been identified.[26] While for the U.S., IPE scholars have recognised the significance of the Federal Reserve-Treasury-Wall Street nexus.[27] Scholars have not, however, identified the extent to which the Federal Reserve-Treasury-Wall Street complex at the heart of American capitalism, has been articulated in and through the corresponding City-Bank-Treasury nexus within Britain. This was the broader transatlantic context within which the emergence of the Euromarkets occurred. But the key dynamics also reflected the specificities of national capitalist development

1991), pp. 125-158; Ron Chernow, *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance*, (London: Simon & Schuster, 1990), p. 276.
[23] Block, 'Origins of Disorder', p. 14; Konings, 'American Finance', p. 71.
[24] Peter Burnham, *The Political Economy of Post-war Reconstruction*, (Basingstoke: Macmillan, 1990); John Ruggie, 'International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order', *International Organization*, 36 (1982), pp. 379-415.
[25] Eichengreen, 'Globalizing Capital', p. 91; Louis Pauly, *Who Elected the Bankers? Surveillance and Control in the World Economy* (London: Cornell University Press, 1997), p. 45.
[26] Ingham, 'Capitalism Divided?'.
[27] Gowan, 'Global Gamble'; Panitch and Gindin, 'Making Global Capitalism'.

within bothcountries. It is to the particular trajectory of Anglo-American development that the analysis now turns.

Regulatory embrace and regulatory escape

Britain's 1951 Conservative government was keen to restore the City's international role. But they faced a central dilemma, the international predominance of sterling, crucial to the City's former pre-eminence as an entrepôt centre, was no longer. The Conservative ambition to restore the City appeared increasingly incompatible with the need to maintain sterling's fixed exchange rate. For British merchant banks and the City to regain their international predominance and fulfil the Conservative's political aspirations to restore the old order of the British state an alternative means would have to be found. The solution was the Eurodollar.

British banks were only able to maintain their international standing by switching into the dollar. As British power waned, [28] Not surprisingly, then, it was the merchant banks that led the Euromarkets charge, setting the stage for the City's rebirth within a new Anglo-American financial order

The 'offshore' status of the Eurodollar market was unique. An informal approach to regulation in the City allowed the Euromarkets to flourish and effectively split the British banking system in two.[29] In order to do this, the City developed a new accountancy category: where at least one party to the transaction was British, the transactions were defined as 'onshore', but where both parties were non-British the transactions were marked in a second 'offshore' set of books. Offshore was an accounting device that embedded a sovereign bifurcation within the City's regulatory order: onshore activities and entries were subject to national financial regulations, while offshore transactions, conversely, fell beyond the

[28] Geoffrey Jones, *British Multinational Banking, 1830-1990*, (Oxford: Clarendon Press, 1993), pp. 248-287.
[29] Burn, 'City and State', p.226. Schenk describes this regulatory context as one that, 'encouraged innovation as a means of evading controls while tolerating such innovations ex post': Schenk, 'Origins of Eurodollar', p. 233.

national regulatory remit and within a laissez-faire order of self-regulation spatially within, but juridically beyond, the post-war Keynesian state infrastructure of financial control.[30] By developing an 'offshore' regulatory orientation and accountancy technique, the City was able to perpetuate its entrepôt role through the dollar. It was the innovation of 'offshore' finance then, as a peculiar and intentional bifurcation of sovereignty, which enabled the City's entrepôt role to continue. American finance could never have globalised as it did without this British institutional innovation.

At work here was a process of 'regulatory embrace' by which the City's merchant bankers and the Bank of England welcomed the emergence of offshore dollar business within the City, establishinga symbiotic relationship with New York and the American monetary system.. Here the roles of George Bolton and Siegmund Warburg were central. Bolton, a former merchant banker employed by the Bank of England, was crucial to establishing the Bank's early acceptance of the Euromarkets. Siegmund Warburg, one of Britain's premier merchant bankers, was instrumental. Warburg had been deeply critical of the limited integration brought about through Bretton Woods, calling for greater capital mobility as well as closer financial ties between Britain and the US as early as 1950.[31] He would be influential in pulling the Treasury deeper into the Euromarkets during the 1960s.

Bolton and Warburg visited America in 1962 to gauge the American mood on Eurobonds. Bolton subsequently encouraged the Bank to enable Eurobond issues and by early 1963 the approval of the authorities was secured. The first ever Eurobond issue was signed in July of 1963, the deal was guided through by Bolton while Warburg's banking house provided the signature.[32]

For both Warburg and Bolton, the revival of London's role as an international capital market dealing in foreign currency was a mechanism for promoting British

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[30] Ronen Palan, *The Offshore World: Sovereign Markets, Virtual Places, and Nomad Millionaires*, (Ithaca: Cornell University Press, 2006), pp. 27-32.
[31] Niall Ferguson, *High Financier: The Lives and Times of Siegmund Warburg*, (London: Penguin, 2010) pp. 159-160.
[32] Ian Kerr, *A History of the Eurobond Market: The First 21 Years*, (London: Euromoney, 1984). P14.

entry into the EEC by enhancing the City's continental appeal. Unbound from sterling, the City would be beneficial to the EEC and Europeans would not have to prop up an ailing currency. Warburg's correspondences with the Bank implicitly threatened that failure to liberalise London's capital markets might lead to an exodus of merchant bankers towards alternative European financial centres in an exercise of 'capital flight' discipline over the state that would become all too common in the era of globalisation.[33]

The development of the Euromarkets was driven by the agency of merchant bankers in conjunction with state institutions, demonstrating the tight linkages between private bank power and the development of the state's institutional capacities. It was the agency of key forces within Britain that facilitated the internationalisation of American finance and they did so in order to pursue their own distinctive ends of retaining domestic hegemony and deepening European financial integration. By doing so they in fact structured American policy options, not vice versa, reversing the lines of causality established by American-centric perspectives on structural power.

The regulatory embrace of the City's merchant bankers and the Bank was matched by a correspondent 'regulatory escape' of American banks from the restrictive New Deal regulatory regime in the US. Interactivity between the dollar supply, monetary policy and the status of the City as an entrêpot centre anchored the emergence of the Euromarkets within Anglo-American development.

After the Great Depression, American monetary authorities introduced 'Regulation Q' and the Glass-Steagall Act.[34] Regulation Q capped the interest rate that American banks could offer for depositors, while Glass-Steagall maintained a strict division between commercial and investment banking. Despite this restrictive context, American finance experienced prolonged growth after the war.[35]

[33] Ferguson, *High Financier*, pp. 209-218.
[34] Bell, 'The Euro-dollar Market', p. 9.
[35] Konings, 'American Finance', p. 100.

By the later 1950s, however, American banks were frustrated by New Deal regulations. [36]These restrictions prompted a 'regulatory escape' by large American banks seeking to sidestep New Deal regulations and take advantage of London's burgeoning offshore business. In the years that followed American banks overcame entered the offshore regulatory space of the City, transforming Anglo-American capitalism in the process.

AClose cooperation between the Fed and the Bank emerged during the 1960s, as it became increasingly clear that collaboration was required to reinforce the stuttering Bretton Woods system. These measures gave further impetus to the Euromarkets.

Successive U.S. administrations attempted stopgap measures to assuage the balance of payments and stabilise the dollar.[37] The Americans were also increasingly drawn into the management of Britain's crisis-stricken monetary policy as Britain's balance of payments problems deepened. From 1964, supporting the existing sterling-dollar rate became a fundamental component of U.S. international monetary policy.[38] Added to this was a simmering geopolitical consideration: the Americans' willingness to support sterling was linked to Britain's presence in South East Asia. The State Department made clear that support for sterling was contingent upon Britain acting as a bulwark against communism in the region. Furthermore, the U.S. relied upon the Euromarkets to meet the capital needs of American MNCs abroad within a context of domestic restrictions on capital outflows and deficits fuelled by Vietnam.[39]Anglo-American monetary cooperation was therefore tightly linked to geopolitical considerations.

Anglo-American financial synthesis in the City

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[36] Ibid, p. 107.
[37] Eichengreen, 'Globalizing Capital', p. 126.
[38]Ibid, pp. 123-125.
[39] Catherine Schenk, *The Decline of Sterling: Managing the Retreat of an International Currency, 1945-1992*, (Cambridge: Cambridge University Press, 2010). pp. 167 & 10.

American banks arrived in Londonen masse during the 1960s. By 1975, 58 U.S. bank branches had been established in the City.[40] This section draws upon archival material from the Bank of England to examine the consequences of American entry into the City. This led to a synthesis of Anglo-American banking practices, increased Anglo-American interest rate interdependence and constraints upon the autonomy of policy makers on both sides of the Atlantic. It also transformed the Bank's institutional orientation towards a transatlantic outlook.

For the Bank , the arrival of the Americans raised crucial questions about regulation. While for British bankers, their arrival presented a potential competitive challenge. But for both the Bank and the bankers, their arrival was also a major opportunity. By invigorating and expanding the scope and depth of the Euromarkets, the American invasion offered British bankers the chance to take a bigger slice of a rapidly growing pie, even if their relative share declined.

The American influx boosted the standing of the Euromarkets and by association, the Bank. This was reflected in the banks status as the epistemological authority on the Euromarkets. The arrival of the Americans, enabled the Bank to reassert its centrality and significance within the British state and international financial community. It was through its interconnection with offshore American finance and deepening ties to the Federal Reserve-Treasury-Wall Street nexus that the Bank recovered its pre-war international prestige within an international order dominated by American power. But the arrival of the Americans also raised troubling questions about the status of British merchant banks and increased Britain's sensitivity to American economic policy.

The 'spatial-fix' of escape into the City necessarily brought about complex questions regarding sovereign authority.. American banks now depended upon a

[40] Richard Sylla, 'U.S. Banks and Europe: Strategy and Attitudes', in Battilossi and Cassis (eds) *European Banks and the American Challenge: Competition and Cooperation in International Banking Under Bretton Woods*, (Oxford: Oxford University Press, 2002), pp. 53-74.

foreign central bank, but the Bank would be expected to hold closer ties to the old order of the City's banking elite than to the American interlopers.

For the US Treasury and the Fed, the American takeover of the Euromarkets was similarly Janus-faced. By escaping the New Deal regulatory parameters and dependence upon the domestic dollar supply, the American banks gravely undermined the capacity of American fiscal and monetary policy to control banking. This would become all too clear from the mid-1960s. But they had also, quite unintentionally, alleviated some of the pressure on the U.S. balance of payments, by tapping in to offshore dollar flows, and intensifying the global standing of the dollar as a vehicle currency.

The scale and pace of the American capture of the Eurodollar market was breath-taking. Figure 1.1 below depicts this. Current account deposits of overseas residents represent Eurodollar market deposit-taking and the increase is accounted for overwhelmingly by increased dollar deposits.

Figure 1.1 about here

We can see in figure 1.1 that British Overseas and Commonwealth Banks experienced a major loss of relative market share, with their share of Eurodollar deposits dropping from c.40% in 1962, to c.25% in 1970. Accepting houses also experienced a severe contraction of their market share, from 20% down to 8% between 1962-1970. For American banks the story was very different. Their share of Eurodollar deposits rose precipitously, from just over 20% in 1962, to around 55% in 1970.

By disaggregating deposits into sterling and non-sterling we get a clearer picture of the vast take-off in Eurodollar deposits from figure 1.2.

Figure 1.2 about here

For American banks, the growth in deposits of overseas residents was overwhelmingly accounted for by a sharp increase in non-sterling (i.e. dollar) deposits. The low level of sterling deposits remained remarkably stable over the period.

Contrastingly, British Overseas and Commonwealth banks (figure 1.3) experienced much more gradual increases in the volume of non-sterling deposits from overseas residents. Whereas American banks experienced a sevenfold increase in the volume of overseas non-sterling deposits between 1965-1970, British Overseas and Commonwealth banks experienced a threefold increase. British banks' relative gains were limited, but they now participated in a level of market expansion unimaginable without the influx of American banks and the corporate client base that they brought with them.

Figure 1.3 about here

How did the Bank respond to the Americanisation of the Eurodollar market? The following archival evidence from the Bank captures the reaction to the arrival of the Americans and provides crucial insights into the mechanisms underpinning the intensification of Anglo-American development. The Bank really took notice of the Americans from 1963, as documented in the regular meeting of Euro-currency experts at the BIS. Reporting on the 1963 meeting, Bank officials acknowledged that London branches of American banks were more active than before in the Eurodollar market, with U.S. businesses borrowing there rather than New York.[41]

Correspondence between the Treasury and the Bank provided the primary channel of Euromarkets policy formulation and prompted further development of communication channels between them. As well as pulling in American state and financial power, then, the Euromarkets helped to solidify the institutional

[41] Bank of England Archives 6A123/1 'Economic Intelligence Department Files: Euro Currencies- Including Euro Dollars and Euro Bonds 1/1/64-31/7/65', Report on Meeting of Experts on the Euro-currency Markets at the BIS, November 9th -11th 1963.

interdependencies between the Bank, the Treasury and the City. Bank officials outlined the parameters of their responsibility for Eurodollar activity in these exchanges.[42] In correspondence with the Treasury, Bank officials made clear that what applied for British banks, regarding the Bank stepping in as a lender of last resort, 'cannot be held to apply in the same measure at all to the London branches or subsidiaries of foreign banks'.[43] London branches of foreign banks were not viewed as the responsibility of British authorities but rather those of their head offices. Beyond the head offices, national central banks from the originating country would take ultimate responsibility. This discussion occurred within a context whereby London branches of American banks now accounted for 30% of deposits in the Eurodollar market.

Crucially then, the City's hosting of foreign banks did not entail a corresponding globalisation of the Bank's lender of last resort function. The American influx and the hybrid interaction of Anglo-American finance that this was occasioning in the City, were forcing the Bank to evolve its regulatory responsibilities in a manner that would have a hugely significant bearing on the future of international banking.

As monetary conditions tightened in the U.S., the significance of the Eurodollar market increased dramatically. Between 1965 and 1966 a credit squeeze in the U.S. and the introduction of the 'Voluntary Foreign Credit Restraint' programme led New York banks to turn to their London branches for funds. The Bank noted that this dynamic was practically 'inevitable' given that the traditional sources of liquidity within the U.S. had dried up. In fact, monetary conditions in the U.S. were so difficult that when a Bank official met with a senior member of the Chase Manhattan bank in early 1966, the Chase employee suggested that the Eurodollar market had been so important for reserve positions that, 'without it,

[42] BoE Archives 6A123/5 'Economic Intelligence Department Files: Euro Currencies-Including Euro Dollars and Euro Bonds 1/1/68-31/5/69', Memo from Treasury to the Bank of England requesting Prime Ministerial brief on the Eurodollar market, October 22nd 1968.

[43] BoE, 6A123/1: Letter regarding document to be prepared by the Bank of England in response to a Treasury request for information of the standing of the Eurodollar market, March 6th 1964.

we'd have been dead' .[44] The Euromarkets enabled American banks to circumvent domestic restraints on credit in a way that severely undermined the policy autonomy of US officials and meant that the Americans were increasingly forced to look to London and the British authorities in order to manage their domestic banking system. Anglo-American development was eroding monetary autonomy on both sides of the Atlantic. Preoccupations with American structural power fail to capture this pronounced increase of American dependency upon British state agency.

Johnson's restrictive measures and the Fed's credit crunch in 1966 werea watershed for American banks and the Euromarkets.[45] No longer taking only a passing interest in the market, American banks identified Eurodollar expansion as essential to their business strategy.[46] The Euromarkets transformed the business practices of American banks and integrated transatlantic money markets.

The Bank's position within the City enabled it to gauge the intensity with which the Eurodollar market was being shaped by changes in U.S. monetary policy. As more American banks decamped to London, their role in funnelling funds to their U.S. head offices led to an *increasing interactivity of interest rates* on each side of the Atlantic, a further symptom of intensifying Anglo-American interdependence. As we can see in figure 2.1 below, a *triadic interaction of interest rates* evolved during the 1960s: that between Bank Rate, the Eurodollar Rate and the Federal Funds Rate.

Figure 2.1 about here

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[44] BoEArchives 6A123/3 'Economic Intelligence Department Files: Euro Currencies-Including Euro Dollars and Euro Bonds 1/8/65-31/10/66', Memo from Bank of England Overseas Office charting U.S. banks drawing dollars through London branches, August 22nd 1966.

[45] Daniel Kane, *The Eurodollar Market and the Years of Crisis*, (New York: St Martin's Press, 1983), p. 13.

[46] Richard Sylla describes this transformation aptly, suggesting that while American banks gave little consideration to operations in Europe before 1963 they, 'thought about little else in the decade thereafter': Sylla, 'U.S. Banks and Europe', p. 62.

The principal relationship here was between the Eurodollar Rate and the Federal Funds Rate, with the absence of interest rate ceilings enabling the Eurodollar Rate to be set consistently above that of the U.S. money market rate with the effect of drawing money out of the U.S. capital markets and into London. Figure 2.1 shows that UK Bank Rate was consistently the highest rate of the three. This was needed to maintain the attractiveness of sterling holdings in the light of the emergence of the Euromarkets but also a measure of sterling's general weakness. But given the increasingly limited role for sterling as a trade and investment currency, and the dominant role of the dollar, the impact of the sterling rate upon the price of dollar borrowing was not without limits. The differential between the Eurodollar Rate and the Federal Funds Rate was more important with respect to the price of dollar borrowing.

Figure 2.2 about here

Authorities on both sides of the Atlantic were aware of this dynamic. During a U.S. Treasury meeting in April 1963, Robert Roosa expressed discontent with the British monetary authorities, suggesting that they had pushed up Bank Rate in order to keep ahead of the Eurodollar Rate. It was understood that the British action might also push up the Eurodollar Rate, aggravating U.S. balance of payments difficulties through the resultant capital outflow.[47] This dynamic is clearly evidenced in figure 2.1, which shows that Bank Rate was the highest rate, with the Eurodollar Rate below it and the U.S. Federal Funds Rate consistently the lowest of the three. Apart from a three-year period, between 1968 and 1971, the British Bank Rate was highest.

[47] Burn, 'Global Finance', p. 158.

During the mid-1960s this relationship intensified. As figure 2.2 shows, there was a strong correlation between the Eurodollar Rate and the U.S. Federal Funds Rate. Whilst during the early 1960s the Eurodollar Rate was kept marginally above the Federal Funds Rate in order to draw money away from the U.S. capital market, from the mid-1960s as the U.S. tightened its monetary policy, the Eurodollar Rate spiked in response to a massive surge in demand. This was a result of factors that the Bank had recognised: by drawing funds from their London branches the New York banks were pushing up the price of Eurodollar borrowing.[48] This dynamic is visible in figure 2.2, with the two Eurodollar Rate spikes that pushed it well over the Federal Funds Rate from 1965 to 1967 and then again from 1968 to 1971.

Anglo-American financial development in the City restricted the autonomy of US policy makers, necessitating greater cooperation and openness with British counterparts. Eurodollar movements exerted sustained pressure upon the international monetary system. Large-scale American borrowing introduced a, 'permanent element of demand' shaped by economic conditions within the U.S.[49] This integrated the US, Eurodollar and European markets much more tightly. Consequently, European capital markets became more exposed to fluctuations in US monetary policy, creating a form of hub and spokes relationship.[50] These developments contributed to the increasing international monetary disorder of the later 1960s and early 1970s.[51]

Eurodollar flows into US money markets were discussed at the BIS in 1966. American bank branches had begun granting loans to the head offices of US corporations, who lent the money on to their overseas subsidiaries. This method

[48] B oE Archives 6A123/3 'Economic Intelligence Department Files: Euro Currencies-Including Euro Dollars and Euro Bonds 1/8/65-31/10/66', Memo from Bank of England Overseas Office charting U.S. banks drawing dollars through London branches, August 22nd 1966.
[49] Kane, 'Eurodollar Market', p. 13.
[50] Ibid.
[51] The 'Eurodollar slop', an expanding pool of ex-patriate dollars that tended to move predominantly back and forth across the Atlantic, was the underlying root of the dollar crisis of 1970/71 that preceded Nixon's delinking from gold and the de facto termination of Bretton Woods: Strange, 'Dollar Crisis', p. 198.

was devised explicitly to circumvent the Interest Equalization Tax.[52] When asked about the attitude of the US authorities towards this borrowing, given that it weakened the impact of US monetary restraint, Samuel Katz of the Fed replied that the borrowing was not a serious problem given its small size. Significantly, Katz added that these borrowings were in fact 'welcome' given that they had the effect of strengthening the dollar's position and easing the US balance of payments. But as the Eurodollar market's integration with the US money market intensified during the latter 1960s, the American attitude hardened. This tougher stance would culminate with a failed attempt to win tighter regulation of the markets. In the following decades, Euromarkets dynamics hosted in London were a continual thorn in the side of US policy-makers.

American bank borrowing from London branches surged in1968, stimulated by restrictive measures implemented by Johnson. In response, the Fed's Andrew Brimmer suggested that while the Eurodollar market was based in London, 'its basic driving force during the last year has centred in about a dozen large banks in the United States'.[53] These banks turned to the Eurodollar market to compensate for the loss of domestic deposits. Brimmer acknowledged that bidding for Eurodollar funds by American banks had pushed up the Eurodollar Rate and made monetary management in the US more difficult. US policy makers were now a victim of the success of the dollar, finding their actions and autonomy severely constrained by the satellite role of the Euromarkets. By constructing the Euromarkets and drawing in the dollar, British merchant bankers and the Bank, in conjunction, set in motion dynamics that curtailed the scope of American policy-makers. The limits of US structural power were not therefore simply the result of developmental

[52] BoE Archives 6A123/6 'Economic Intelligence Department Files: Euro Currencies- Including Euro Dollars and Euro Bonds 1/6/69-31/3/70', Report on the 'Meeting of Experts on the Euro-Currency Market', July 12th, 1966.
[53] Bank of England Archives 6A123/6 'Economic Intelligence Department Files: Euro Currencies- Including Euro Dollars and Euro Bonds 1/6/69-31/3/70', Transcript of presentation given by Andrew Brimmer, 'The Eurodollar Market and the US Balance of Payments', November 17th 1969.

'contradictions',[54] they were the product of the agency of British merchant bankers and the Bank of England as they used offshore to resuscitate the City's entrepôt role.

Banking on the Treasury

British merchant bankers used the momentum of the Euromarkets to transform the fiscal basis of the British state, steering British development towards their interests. Pressures to change the financing of the nationalised industries reached fever pitch after devaluation in 1967. Eurobonds were now touted as a potential source of funds. The Treasury and the Inland Revenue discussed the possibility of easing access to the Eurodollar market for British traders. The motivation here was the perceived benefit to the British balance of payments with reserves strengthened if traders borrowed outside the Sterling Area to finance domestic investment.[55] To encourage Eurodollar borrowing, a new Bill proposed to make more interest on foreign borrowing tax deductible.

The Treasury and the Bank override the Inland Revenue's concerns about the potential impact of a relaxation of borrowing controls upon offshore tax havens. In a meeting between Treasury and Bank officials the increased balance of payments benefits post-devaluation were stressed. With confidence in sterling low, it was felt that any measures that could help bolster Britain's reserve position were to be encouraged.[56] The move towards greater Euromarket borrowing would have an additional benefit: reducing Britain's exposure to destabilising short-term capital movements.

By expanding the financing options available to firms, the proposal would lead to, 'the average lengthening of our borrowing abroad', a step which was seen as, 'in line with the Government's policy of reducing the country's sensitivity to short-term flights of funds'. Increases in reserves derived from this practice would be a, 'very

[54] Konings, 'Construction of US Power', p.80.

[55] National Archives IR40/16006 'Discussions with Financial Secretary, Treasury and Revenue on whether companies should be encouraged to borrow on Eurodollar market 1966-1978', Memo from Treasury to Inland Revenue, 1968.

[56] NA IR40/16006, 'Meeting between Financial Secretary, treasury and Bank of England Officials, 17th May 1968.

real gain', and, 'would be recognized as such in every financial centre in the world'.[57] The Bank firmly supported the proposal and the Treasury agreed that the Inland Revenue's tax objections were, 'insubstantial'.[58] By the end of May 1968, the Chancellor of the Exchequer had concluded that the balance of payments benefits outweighed the tax difficulties.[59] Quite perversely, then, the growing offshore market that had enabled vast movements of hot money previously unseen during the post-war period was now viewed as the most viable means to insulate Britain from speculative movements. Capital controls were ruled out and the solution appeared to be an even tighter integration with the vicissitudes of the Euromarkets.

The increased appeal of the Euromarkets owed to the active lobbying of Britain's merchant bankers from the mid-1960s. Treasury officials reported to the Inland Revenue that, 'merchant bankers at home and abroad have been urging for some time that if certain tax impediments were removed U.K. firms and public bodies would be able to raise large sums in medium and long term issues of Eurodollar bearer bonds'.[60] Foremost among these merchant banker advocates was Warburg. In 1965 Warburg had, alongside Hambros and Rothschilds, pressured the Bank to exempt foreign bonds issued in London from stamp duty. They also pressed the Treasury to remove income tax deductions from interest on bonds issued by companies based in the UK.[61] Harold Wilson relied heavily upon Warburg for financial advice during the 1960s, with his firm advising the government on currency questions and public sector finances.[62]

Long term borrowing requirements of the nationalised industries had, since 1956, been financed wholly through the Exchequer.[63] This meant that their

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[57] NA IR140/16006, 'Note by the Financial Secretary on Eurodollar Borrowing', May 1968.
[58] Ibid.
[59] NA IR140/16006, 'Memo from Inland Revenue to Treasury Officials', 29th May 1968.
[60] NA IR140/16006, 'Treasury letter to the Inland Revenue', October 4th 1967.
[61] Ferguson, 'Warburg', p. 225.
[62] Ibid, p. 285.
[63] NA IR40/16006, 'Memo from the Chancellor of the Exchequer to the Treasury', September 13th 1967.

borrowing requirements were aggregated with other government borrowing. During the 1960s the funds required for borrowing had grown rapidly. The problem became one of financing investment without weakening Britain's balance of payments. Merchant bankers advocated greater Euromarket borrowing for the government, local authorities and the nationalised industries. Warburg declared to the Exchequer that borrowing from the Euromarkets would be "good for the credit".[64]

The City's merchant bankers were pushing Britain deeper into the embrace of private capital markets. The lobbying efforts of Warburg and others bore fruit: in 1969 the Gas Council raised £31 million through deutschmark denominated Eurobond issues, and by October of 1971 British public sector agencies had raised £51 million through this channel.[65] The Euromarkets intensified banking power in Britain, not only by pulling American banks into Britain en masse, but also by energising merchant banker's efforts to render government fiscal policy compatible with their interests.

This was not simply a case of the outward expansion of American finance, then, or of the restoration of the old order of British capitalism, but rather the further intensification of a qualitatively distinctive Anglo-American sphere of development. The Euromarkets fundamentally Atlanticised British capitalism, bringing about a structural transformation in the orientation of key state institutions through which they embraced the emergence of offshore Euromarkets finance. In doing so they transformed the structures within which American policy makers and bankers operated and undermined the existing American financial order.

The transatlantic regulatory feedback loop

[64] NA IR40/16006, 'Treasury paper on the possibility of borrowing abroad to finance the nationalised industries and local authorities', May 25th 1967.
[65] Ferguson, 'Warburg', p. 285.

This section traces the dynamics and effects of the *transatlantic regulatory feedback loop* that emerged during the 1960s and stimulated processes of financial deregulation that gathered pace in the following decades. Bankers in Britain and America lobbied their national monetary authorities to enable further liberalisation to ensure the maintenance of competitive advantages, while central banks were forced to adjust their regulatory stance in response to the new challenges and jurisdictional ambiguities thrown up by the Euromarkets. By increasing the competitive pressure on British banks, the American influx destabilised the prevailing regulatory order within the City. These dynamics would pave the way for the financial liberalisation that gathered momentum on both sides of the Atlantic during the 1970s and 1980s.

It is in the 1960s, then, that many of the originating Anglo-American developmental processes that subsequently fed into financial deregulation are located. Although the continuity of transformative processes linking the 'post-war' and 'neoliberal' eras of global capitalism has been astutely observed, the peculiarly Anglo-American accent of these transformations and their situation within the broader context of post-war Anglo-American development, have been overlooked.[66] Crucially, these Anglo-American dynamics also transformed patterns of international financial sovereignty and contributed towards a major recalibration of international banking regulation.

Interdependent monetary dynamics between the U.S. and the Euromarkets during the later 1960s began to affect the regulatory stance of the Fed. In August of 1969, the Fed introduced a 10% marginal reserve requirement for U.S. bank liabilities to overseas branches and on funds acquired by overseas branches from their U.S. head offices while also adjusting the required reserve level for other channels of offshore funding. The Eurodollar market was *driving regulatory transformations* on both sides of the Atlantic. Anglo-American developmental dynamics, centred upon financial integration, were at the heart of regulatory transformations in the world's two most important financial centres. For their part

[66] Konings, 'American Finance', p. 12; Panitch and Gindin, 'American Empire', p. 19.

American officials allowed Eurodollar expansion, but they certainly did not devise it as a coherent pre-planned strategy for augmenting American financial power.

Nevertheless, there were regulatory changes undertaken in the U.S. in order to facilitate internationalisation.[67] But on balance the regulatory and policy context within the U.S. was more disabling than encouraging, with tight money in the U.S. and attempts to restrict lending from domestic offices the principal policy catalysts for international expansion.[68] This was a case of the regulatory escape of American banks from the restrictive New Deal regulatory apparatus and the series of measures undertaken to curb the chronic U.S. deficits position in order to save Bretton Woods. Once the market emerged, however, American policy makers certainly did seek to make use of it in order to promote their perceived national interests. In this respect then, both Panitch and Gindin, and Strange, correctly highlight its functionality to the deepening of American financial power.[69] American monetary authorities were coming to terms, *in a complex and contradictory fashion*, with an enormously fluid period in the history of the international monetary system.

For the Bank, the regulatory pressure emanated from the arrival of American banks with large deposit bases and a desire to exceed the dealing limits of British banks. Bank officials were keen to, 'forestall any Treasury worrying', regarding dealing limits. As American banks entered the market they had the effect of pushing up the level of dealing limits. It was thought that an attack on dealing limits would be an embarrassment to British banks, which needed them to effectively conduct operations. The Bank's adoption of a new policy, allowing larger dealing limits, was seen as, 'a purely defensive one forced on us by the very large number of American banks now coming to London'. But in insisting upon the maintenance of dealing limits Bank officials also believed that they were acting in the interests of the Americans, by preventing them from being associated with any decline in sterling's

[67] Andrew Brimmer and Frederik Dahl, 'Growth of American International Banking: Implications for Public Policy', *The Journal of Finance*, 30 (1975), pp. 341-363.
[68] Mark Mizruchi and Gerald Davis, 'The Globalization of American Banking, 1962 to 1981', in Dubbin (ed) *The Sociology of the Economy*, (New York: Russell Sage Foundation, 2004), pp. 95-127.
[69] Panitch and Gindin, 'Making Global Capitalism'; Strange, 'Lost Hegemony'.

position.[70] By this point then, the Bank had already begun to *act on behalf of the interests of American banks*. This was a key moment in the integration of Anglo-American finance, with the Bank of England now recognising that its responsibilities had been Atlanticised through the City's role in hosting the offshore dollar business and the influx of American banks.

There was concern about the American arrivals too. Bank officials reflected that people were, 'constantly wondering aloud whether the large and seemingly never-ending influx of American banks into London is an unalloyed benefit'. Regarding competition with British banks, it was inferred that British banks' willingness to help their American counterparts suggested that the newcomers were not an existential threat. Where competition for clients did appear likely, it was anticipated that the greater impact would be upon the UK-based American subsidiary clients of other American banks.[71]

On balance then, the Americanisation of the Eurodollar market was not viewed as a major concern for the Bank in terms of any perceived threat to the profitability of British banking. Where concern did arise, it centred upon how the Bank ought to adapt its regulatory stance and continue to safeguard sterling. Both on the question of lender of last resort responsibility and the issue of dealing limits, the Bank was rapidly recalibrating its policy. In the post-war period, the Bank had relied upon its relationship with a concentrated and cartelised banking sector to manage monetary policy and control credit levels. As the number of foreign banks operating in London grew it became increasingly difficult for the Bank to rely on its traditional relationship with a closed network of dominant British banks.[72] Economic planning and government management of financial markets became much

[70] BoE Archives EID4/113 'Home Finance: Banking- General Papers 7/12/64-17/11/66', Internal memo, Bank of England- 'New American Banks in London- Dealing Limits', March 5th 1969.

[71] Ibid.

[72] Ranald Michie, 'The City of London and the British government: the changing relationship', in Michie and Williamson (eds) *The British Government and the City of London in the Twentieth Century*, (Cambridge: Cambridge University Press, 2004), p. 44; Michael Moran, *The Politics of Banking*, (London: Macmillan, 1986), p. 2.

harder. Credit markets were increasingly responsive to global demand fluctuations rather than the requirements of the British government.

The impact of the Euromarkets, then, was to crucially undermine some of the foundational struts of post-war Keynesian economic management in Britain, paving the way for the transition towards a liberalised financial system that would feed into the neoliberal revolution of the Thatcher era. In responding to these manifold new challenges, the Bank was adapting to the Euromarkets and creating a new form of international financial sovereignty: a form of *splintered sovereignty* constituted through Anglo-American development. National and international regulatory responsibilities became geographically fragmented and overlapping. Although hosting a growing number of foreign banks, a key component of the Bank's institutional functions, its role as a lender of last resort, remained exclusively national. Simultaneously, the presence of American banks brought the lender of last resort responsibility of the Fed into London, internationalising the Fed's regulatory reach and pulling American state sovereignty into the business operations of the City.

As Burn notes, the Bank's restored role had echoes of the classical gold standard era.[73] Yet Burn neglects the extent to which its role was now fundamentally different: the Bank now performed a subordinate and deeply integrated role within a new order of global finance that hinged upon an Anglo-American financial axis based around London and New York. This order did not rest upon the strength of sterling, but rather the rising dominance of the dollar as a surrogate currency that enabled the maintenance of the City's international role. In important ways, then, the Bank did not restore its old autonomy: it was severely circumscribed by subordinate integration with American financial power. Unevenly, this compromised both the autonomy of the Bank *and* the Federal Reserve.

The Euromarkets produced a *fracturing of jurisdictional authority* that spawned ambiguity over the international and national regulatory responsibilities of central banks. This spurred the evolution of regulatory regimes to clarify the

[73] Burn, 'City and State', p. 227; Burn, 'Global Finance', p. 184.

situation in the following decades. In hugely important ways, then, the development of international financial regulation was an outgrowth of the generative force of Anglo-American development, with the intensifying interdependence between bankers and central banks in London and New York disrupting the existing international financial order of sovereign and nationally discreet financial systems.

The Bank's experience with the Eurodollar market and its discussion as early as 1964 of the limits to jurisdictional authority over foreign bank branches during crises, were the progenitors of 'home country rule'- a key innovation in international financial regulation. Recall that Bank officials concluded that the Bank's lender of last resort responsibility for British banks 'cannot be held to apply in the same measure at all to the London branches or subsidiaries of foreign banks'.[74] London branches of foreign banks were deemed to fall outside of the purview of British authorities. They would instead fall under the responsibility of their head offices. Beyond the head offices, national central banks from the originating country would take ultimate responsibility.

In this way, then, 'home country rule' attributed the responsibility for defining and regulating financial institutions to the state and accorded responsibility for foreign branches to their originating national central bank. States would look to one another, rather than to supranational organisations, in order to legislate and enforce collective agreements on supervision.[75] Not only did the Bank stumble across this innovative principle in responding to the problems raised by the Euromarkets, it also led the development of this principle internationally. Crucially, then, Anglo-American development was producing qualitatively distinctive institutional mutations that transformed the landscape of global finance.

The regulatory challenge provided by the Euromarkets, alongside a series of major banking crises during the 1970s, led to acceleration in the development of

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[74] Bo EArchives 6A123/1 'Economic Intelligence Department Files: Euro Currencies- Including Euro Dollars and Euro Bonds 1/1/64-31/7/65', Report on Meeting of Experts on the Euro-currency Markets at the BIS, November 9th -11th 1963.
[75] Ethan Kapstein, *Governing the Global Economy: International Finance and the State*, (Massachusetts: Harvard University Press, 1996), p. 324.

international banking supervision.[76] As the banking crises of the early 1970s unfolded the Governors of the G10 central banks met to hammer out proposals for international supervision. These meetings produced the 'Basle Concordat', circulated widely amongst central banks and supervisory authorities. The Bank led these discussions, providing the first two chairmen of the committee.[77] The Basle Committee on Banking Supervision, as it came to be known, had a strong British makeup, reflecting the Bank's epistemic authority as an institution at the centre of financial globalisation.[78]

In addition to the increasingly active stance taken by American authorities in managing the international monetary system, therefore, the Bank of England was fundamental to developing the supervisory framework required to accommodate financial globalisation. Key developments like the Basle Committee of Bank Supervisors stemmed from the initiative of the Bank and drew upon its institutional learning during the 1960s.[79] Kapstein has identified the significance of the combined efforts of the Bank and the Fed to solidify the first Basel Accord on capital adequacy in the early 1980s. But Kapstein's account overlooks the deeper context for the Bank and the Fed's combined leadership during the 1980s: that leadership was part of a continuum of Anglo-American developmental interdependence intensified by the Euromarkets.

New York and London were functioning as the twin pivots of financial globalisation and their attendant monetary authorities played an integral role in laying the institutional groundwork for this process. The Fed-Treasury-Wall Street nexus was increasingly articulated through and within the City-Bank-Treasury nexus as part of an Anglo-American engine-room of financial globalisation.

[76] The most prominent crises in this respect were the major losses of Lloyds' Lugano branch, the collapse of the Israel British Bank in Tel Aviv, the Franklin National Bank in New York and most notably of all the failure of the West German, Bankhaus Herstatt: Capie, 'Bank of England', p. 625.
[77] Ethan Kapstein, 'Resolving the regulator's dilemma: international coordination of banking regulations', *International Organization*, 43 (1989), pp. 323-347.
[78] Charles Goodhart, *The Basel Committee on Banking Supervision, A History of the Early Years, 1974-1997*, (Cambridge: Cambridge University Press, 2011).
[79] Kapstein, 'Regulator's Dilemma', p. 324.

Geographically, the City of London became central to the interaction of Anglo-American developmental dynamics. This was part of a transatlantic paradox: sterling's decline was accompanied by the City's rebirth, while the dollar's ascent led, counter-intuitively, to the diminishment of New York's status. Offshore was a distorting mirror through which Anglo-American development was reflected.

The deeper origins of neoliberal deregulation

The evolution of the City's role within a newly Atlanticised framework transformed British banking. It created divisions within the City that would threaten the coherence of the City-Bank-Treasury nexus. As the Euromarkets grew they effectively split the City into two discreet sectors with divergent spatial accumulation orientations. On the one hand, an offshore internationalist world over which British merchant banks and foreign banks presided, with only a tangential relationship to the fate of the national economy. On the other, a domestic cartel of British clearing banks that had been more tightly integrated with national industry and financing within the Keynesian institutional order and which suffered under the continuing travails of the British economy during the 60s and 70s.[80]

American banks brought new management techniques and financial innovation into the London market, these led to synthetic forms of Anglo-American financial innovation that transformed global financial practices. More importantly, these developments further intensified the transatlantic regulatory feedback loop by prompting recalibrations of national monetary regimes on both sides of the Atlantic to deal with the new competitive challenges thrown up by Anglo-American financial development. This section demonstrates that these Anglo-American transformations fed through into the deregulation of the early neoliberal period, drawing on archival evidence from the Bank of England. These deregulatory dynamics were not simply a case of the ascent of neoliberal ideology. They were in

[80] Michie, *City of London*, pp45-46.

fact a consequence of competitive processes of financial integration that began with the Euromarkets several decades prior.

The most notable financial innovation that the Americans brought to the City was the introduction of Certificates of Deposit in May 1966, a move that was mirrored by the issuing of sterling CD's by British banks from 1968.[81] The negotiability of CD's, pioneered in the U.S. money markets earlier in the decade, enabled them to function as liquid assets.[82] American banks also introduced the 'going-concern' approach to lending, with future expected earnings rather than the resale value of their assets now the principal criteria for evaluating a borrower's creditworthiness. Covenants imposed by American banks, through which they monitored the profitability of borrowing businesses, led to an intensified role for banks in restructuring business operations in periods of crisis.[83] The growth of the Euromarkets standardised banking practices on both sides of the Atlantic. Techniques of American banks were merged with practices in Britain and then exported back to America, driving homogenisation. As new Eurocurrency markets emerged in other countries, the banking practices pioneered by British and American banks in London began to be transmitted worldwide.[84] Another notable innovation was the introduction of rollover credits. These new loans, 'combined the interest-rate flexibility of British overdrafts with the legal formality of US medium-length term loans'. Instead of a fixed interest rate for the entire span of the loan, the rate would be fixed for certain intervals of time (3-6 months) and then adjusted in line with the changing market rates on bank deposits. The LIBOR rate was used as the basis for these calculations, reflecting the international predominance of the London market. These innovations were part of a process whereby wholesale

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[81] Certificates of Deposit are negotiable certificates received by the depositor in return for a time-deposit placed with a bank: *Oxford Dictionary of Finance and Banking*, Fourth Edition, (Oxford: Oxford University Press, 2008).

[83] Jerry Coakley and Laurence Harris, *The City of Capital: London's Role as a Financial Centre*, (Oxford: Blackwell, 1983), pp. 138-140.

[84] M. Lewis & K. Davis, *Domestic & International Banking*,(Hemel Hempstead: Philip Allan, 1987).pp. 9 & 83.

bankers pioneered techniques for passing on interest rate risks to borrowers at rollover dates that were directly linked to funding costs.[85]

The growth of offshore banking increased competition for deposits denominated in major currencies, with American banks competing for sterling deposits. This had the effect of increasing the competitiveness of the sterling deposit market.[86]British banks were forced to respond to the competitive challenge posed by the Americans. While the merchant banks were prominent players in the first decade of the Euromarkets, their limited deposit bases restricted their capacity to compete as the markets grew.[87] The British clearing banks, which avoided a sustained entry into the Euromarkets until the 1970s, had been sheltered from competition through their cosy relationship with the Bank.[88] The entry of the Americans provided a competitive jolt to the British banks.[89]To compete with their well-capitalised American counterparts, British banks moved towards universal banking and away from traditional divisions between merchant and commercial banking.[90]

These transformations required a corresponding regulatory recalibration and the Conservative government's 1971 'Competition Credit and Control' (CCC) policy offered exactly that. It broke from the moves towards credit rationing by administrative decree, which had proliferated during the tight money policy of the 1960s, freeing up credit markets by substituting price levels for government controls as the decisive determinant of credit supply.[91]

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[85] Banking Information Service ,*International Banking: The role of the Major British Banks*, (London: Banking Information Service, 1985), p. 11.
[86] Robert Aliber, 'Eurodollars: An Economic Analysis', in Savona and Sutja (eds), *Eurodollars and International Banking*, (Basingstoke: Macmillan, 1985), pp. 77-98; Geoffrey Jones, 'Competition and Competitiveness in British Banking, 1918-1971', in Jones and Kirby (eds) *Comeptitiveness and the State: Government and Business in Twentieth Century Britain*, (New York: Manchester University Press, 1991), pp. 120-141.
[87] Jones, 'Multinational Banking', p. 326.
[88] Jones, 'Competition and Competitiveness', p. 135.
[89] Moran, 'Politics of Banking', p. 22.
[90] Stefano Battilossi, 'Banking with Multinationals: British Clearing Banks and the Euromarkets' Challenge, 1958-1976', in Battilossi and Cassis (eds), *European Banks and the American Challenge: Competition and Cooperation in International Banking Under Bretton Woods*, (Oxford: Oxford University Press, 2002), pp. 103-135.
[91] Moran, 'Politics of Banking', p. 30.

In fact, then, the origins of the deregulatory dynamics of the 1970s and 1980s are traceable to the Anglo-American transformation of financial markets during the 1960s. Mirroring the imperatives of CCC and increasingly conscious of the competitive challenge that the City posed to New York, deregulation began to gather pace in the U.S. Nixon called for the gradual phasing out of interest rate ceilings in 1973 while the Securities and Exchange Commission brought about New York's 'Big Bang' in 1975, breaking from its longstanding support for the cartel-like organisations that had dominated American capital markets since the 1930s.[92] From the late 1970s, the problem of growing foreign competition for securities business, with the London challenge central, further destabilised the SEC's regulatory stance.[93]

When the Thatcher government decided to liberalise exchange controls in 1979, the decision occurred against a backdrop of wider international regulatory competition in which competition between Britain and the U.S. was centre stage. In the run up to the decision to liberalise, the Bank produced detailed reports on the abolition of exchange controls in both the U.S. and Japan.[94] Anglo-American competition to attract Eurodollar business into their respective financial centres provided the definitive context within which the decision over liberalisation occurred. We should, therefore, view the decision to further liberalise exchange controls and further open up the City's financial markets within the broader lineage of Anglo-American development and the competition between New York and London, which lay at the heart of this process. Liberalisation was not simply a consequence of philosophical preferences towards free markets, but rather a response to the competitive challenge posed by New York.

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[92] Panitch and Gindin, 'Making Global Capitalism', p. 149.

[93] David Landau, 'SEC Proposals to Facilitate Multinational Securities Offerings: Disclosure Requirements in the United States and the United Kingdom', *New York University Journal of International Law & Politics* 19 (1987), pp. 457-478; Bevis Longstreth, 'Global Securities Markets and the SEC', *University of Pennsylvania Journal of International Business and Law*, 10 (1988), pp. 183-193.

[94] BoE Archives, EC5/649, 'Exchange Control Act File: Relaxations- Papers Covering the Relaxation and Dismantling of Exchange Controls 6/9/79-17/9/79', 'Exchange Controls in the USA', July 26th 1979; 'Japan Exchange Control', July 26th 1979.

The continuing dynamics of the transatlantic regulatory feedback loop were also evidenced in the 1978 proposal by the New York Clearing House Association to grant New York a specialised status as a "monetary free trade zone". The plan attempted to draw offshore banking back into the U.S. by encouraging both American and foreign banks to establish "International Banking Branches" (IBBs) in New York.[95] This proposal posed a major competitive challenge to London's status as a centre for offshore banking and was undertaken by the New York authorities with exactly this intention in mind. By drawing the rapidly expanding offshore banking business back into New York, it was hoped that major benefits would accrue to the city, the U.S. Treasury and the banks themselves.

Under the new scheme IBBs would be able to make loans to, and take deposits from, overseas borrowers, without being encumbered by the reserve requirements and interest rate controls that were applied within the U.S. This constituted an attempt by American regulators and bankers to consciously and strategically reproduce the kind of conditions that had drawn American banks into the City of London's Euromarkets en masse during the 1960s. The plan would require the amendment of the Fed's Regulation D, which as part of the New Deal regulatory framework governed the reserve requirements for banks in the U.S. And crucially, the plan would also require the amendment of Regulation Q, which prohibited payment of interest on deposits that fell short of 30 days.[96]

The competitive dynamics between rival financial centres, New York and London, that had intensified through the emergence of the Euromarkets were now driving the further erosion of the New Deal regulatory architecture in the U.S. and the homogenisation of Anglo-American regulatory regimes, as American authorities attempted to bring offshore business back under American territorial auspices by aping the regulatory climate of the City of London. The transatlantic regulatory

[95] BoE Archives, 4A115/3, 'Monetary Analysis: External Development and Policy Meetings 4/1/78-28/12/79', Memo from the Bank of England Overseas Department, 'New York as a Free Trade Banking Zone', May 31st 1978.

[96] BoE Archives, 4A115/3, 'Monetary Analysis: External Development and Policy Meetings 4/1/78-28/12/79', Memo from the Bank of England Overseas Department, 'New York as a Free Trade Banking Zone', May 31st 1978.

feedback loop continued to have an enormous impact on regulatory frameworks on both sides of the Atlantic. Existing accounts of American financial deregulation during the Volcker era have understated the centrality of these Anglo-American dynamics.[97] Much of what was going on in the transformation of national monetary regimes during the later 1970s and 1980s revolved around the attempt to bring offshore back onshore by liberalising domestic monetary regimes.

Between 1978 and 1981, the Euromarkets and offshore banking were central to the interactions between British and American monetary authorities. As banks on each side of the Atlantic pushed their governments to create regulatory conditions favourable to competing internationally, the existing regulatory orders gradually broke down. These effects continued to erode American financial regulation during the 1980s. Regulatory transformations in the U.S. then fed back into Britain, with the further liberalisation during the 1980s and Thatcher's own 'Big Bang' carried out after British officials had visited the U.S. in order to learn from the American regulatory apparatus.[98]

Conclusion: Anglo-American development and neoliberal deregulation

The birth of the Euromarkets in the City of London represented a defining moment in the post-war history of global finance. As this article has suggested, existing accounts have missed the significance of the emergence of an Anglo-American field of development cradled within the City of London and its feedback effects upon the U.S. This was not a case of monolithic US structural power shaping the options of Britain, but rather of British development, motivated by banking capitalists and the

[97] See: William Greider, 'Secrets of the Temple: How the Federal Reserve Runs the Country', (New York: Simon & Schuster, 1987), p. 155; Greta Krippner, *Capitalizing on Crisis: The Political Origins of the Rise of Finance*, (London: Harvard University Press, 2012), p. 73; Panitch and Gindin, 'Making Global Capitalism', p. 169.

[98] Michael Moran, 'The State and the Financial Services Revolution: A Comparative Analysis', *West European Politics*, 17 (1994), pp. 158-177.

Bank in pursuit of their own ends structuring the options of American finance and, subsequently, of the monetary and fiscal policies of American state institutions. By treating America's post-war ascendancy and British decline as separate problematiques, scholars have neglected the extent to which Britain's role was key to the transformation of American capitalism, by generating competitive pressures that contributed to the dismantlement of the New Deal regulatory architecture and reducing the efficacy of unilateral American monetary policy. It was Britain's peculiar imperial history, long-standing commitment to an open international financial order and the construction of an offshore political-economic space by merchant bankers and the Bank, in contrast to the controls put in place by other European states, which enabled American banking to break through its national boundaries, reconfiguring the international monetary system in the process.

This article has argued that Anglo-American development, centred upon a series of institutional interdependencies, was central to the reconstitution of global finance through the genesis of the Euromarkets. The Euromarkets brought about a qualitative transformation in the orientation of British capitalism, tying it increasingly into a symbiotic relationship with American state institutions and bankers. Interactive processes of 'regulatory embrace' and 'regulatory escape' drew together a synthetic combination of Anglo-American finance within the City of London from the 1960s and set in motion a 'transatlantic regulatory feedback loop' that played a key role in driving competitive deregulation in London and New York during the 1970s and 80s. By unsettling national monetary regimes on both sides of the Atlantic, as well as giving rise to a broader reconfiguration of the international financial regulatory order through Basle, the Euromarkets played a fundamental role in the genesis of financial globalisation and the recalibrated regulatory regimes that provided the basis for global finance to expand. It is in this period of regulatory disruption and globalising financial innovation that the deeper origins of financial deregulation lay. Conventional accounts have, as this article has shown, overstated the determinacy of neoliberal ideology in driving financial deregulation in Britain and the US, the two states that are widely identified as the most influential authors of neoliberal policies.

Through their emergence the Euromarkets compromised national forms of financial sovereignty as the new archival evidence in this article has revealed. This led to new regulatory concepts such as 'home country rule' in order to adjudicate regulatory responsibility in a newly globalising era of splintered financial sovereignty which complicated and disrupted existing post-war national regulatory orders. The Bank's leadership role, overlooked within existing IPE scholarship, was absolutely crucial. Indeed, the coordinated attempts of the Bank of England and the Federal Reserve to lead the reformulation of international financial regulation in the decades that followed the birth of the Euromarkets have their roots in the interdependencies generated by the attempts of Anglo-American monetary orders to manage both the crises of Bretton Woods and the challenges of the Euromarkets during the 1960s.

In more general terms, the arguments and evidence presented in this article should prompt IPE scholars to explore interlinked processes of complex and uneven international development in order to understand the transformation of the global economic order. These processes are relevant not only to relations between developed and underdeveloped countries, but also highly germane for understanding the manner in which the power of dominant states such as the U.S. has been expressed through complex and co-constitutive patterns of uneven interdependence with other major capitalist states. Interdependence with Britain did not simply facilitate the expansion of American financial power; it also severely compromised aspects of American monetary sovereignty and spurred domestic change. In this sense, the relationship between Britain and the U.S., through Anglo-American developmental processes, has been and continues to be essential to understanding the contours of the global political economy. The Euromarkets were central to the inter-bank lending freeze during the Global Financial Crisis of 2007-8 and the continuing absence of a formal global lender of last resort meant that the financial system relied upon ad hoc and delayed interventions by Federal Reserve and the Bank of England to pump-prime money markets through Quantitative Easing and loose monetary policy. The threat of crisis anchored within the post-war Anglo-American order continues to cast a long shadow over the global political economy with many of the issues pertinent to their emergence still unresolved today.